NPN

NATIONAL PETROLEUM NEWS JULY 1983

Are Refiners Jockeying in Octane Race? If So, Competition Was the Starting Gun

Although averages tend to diffuse rather than define what's going on, there's no question that the octane number of top quality unleaded gasoline is edging upwards in response to competition and consumer pressures.

This becomes obvious in a close study of the latest octane report issued by the Bartlesville (Okla.) Energy Technology Center, a unit of the government's Department of Energy. The current report covers octanes as they were in the summer of 1982.

For unleaded gasolines with an octane number of 90.0 and above, the report prosaically lists the average as 91.7—just as it was in the winter of 1981-82.

The district-by-district reports, however, show that at least seven of the 17 districts came up with samples of unleaded gasolines ranging from 93.2 to 93.9 octane. Eight others had samples of 92.0 to 92.9.

There was even one isolated sample of 100 research octane. That's a kind of a number that hasn't been around since the glory days of the 1960s when octane numbers were used to promote gasoline sales.

The government and the industry currently add the research plus motor methods and divide by two to get the octane number that is posted on station pumps. That formula is accepted as the industry yardstick. In the old days, the industry used the research number in its advertisements because it was much higher and sounded better quality-wise. In the '60s, 100-octane gasolines were commonplace in the marketplace.

The research and motor methods are both standard ASTM (American Society for Testing and Materials) procedures. The research method is primarily laboratory, while the motor method, in simple terms, is the shop approach. They're usually about eight to 10 points apart, with the motor method being the lowest of the two.

In the early '70s, when the government overwhelmed the industry with regulations, one new rule mandated that suppliers add the research and motor numbers together, then divide the total by two to find a common denominator.

Naturally, that blew a hole in the octane race/gasoline promotion because the numbers dropped into the upper 80s and lower 90s. When unleaded grades came onto the scene in 1975, they added another factor, as well as thoroughly confusing motorists who had related high-octane numbers automatically to high-quality gasoline.

As premium leaded was phased out, the government and industry began separating the leaded and unleaded gasolines into two categories: above 90.0 and below 90.0 for the unleaded, and above 93.0 and below 93.0 for the leaded grades.

The government's first split report embraced the winter of 1979-80. Unleaded above 90 came in with a surprising 92.1 at that time. But this might be considered somewhat fluky because the number of samples was on the low side (only 117). Not only that, more than half were in the eastern seaboard areas where octanes are traditionally higher, while no samples at all were taken in the Rocky Mountains and the Far West—which would have balanced the report and probably brought that 92.1 down to 91.6 or so.

What all this means is that if stiffening competition should trigger some kind of octane race, the current numbers are about where the starting line will be. And don't forget, these are the numbers for the summer of 1982, not 1983.

Sun recently announced that it had begun to market 93.5 octane unleaded in the Cleveland, Ohio, area, describing this as the highest-octane gasoline available from any major oil company in that marketplace [NPN—May '83, p11].

Many of the oil companies are now marketing 93.0-and-up gasoline, and if Sun's program begins to cut into the gallonage of others, it's as sure as Monday coming after Sunday that they'll jump right in to protect themselves and their volumes. One marketing source said that

Unleaded Octanes: A Bird's Eye View of '82

(The data below are for unleaded gasolines with an octane number of 90.0 and above)

District	No. of Brands	No. of Samples	Research ASTM	Motor ASTM	R+M ÷2
Northeast (Maine, Mass., N.H., Vt. & northern N.Y.)					
District averages	6	6	96.9	86.6	91.8
Highest samples			99.3	87.7	93.3 (a)
Lowest samples			96.0	85.1	90.6 (a)
Mid-Atlantic Coast (R.I., Conn., N.J., Del., Md., Va., central and southern N.Y. & eastern Pa.)					
District averages	12	42	96.9	86.7	91.8
Highest samples			100.0	89.0	93.9 (a)
Lowest samples			94.8	85.0	90.7 (a)
Southeast (N.C., S.C., Ga., Fla., Ala. & eastern Tenn.)					
District averages	7	24	96.8	86.7	91.8
Highest samples			99.0	88.1	93.5 (a)
Lowest samples			95.3	84.6	90.6 (a)
Appalachian (Ohio, W.Va., western N.Y., western Pa., eastern Ky. & part of Mo.)					
District averages	9	41	96.0	86.3	91.2
Highest samples			99.3	87.6	93.4 (a)
Lowest samples			94.9	85.2	90.3 (a)
Michigan					
District averages	7	7	96.2	86.8	91.6
Highest samples			98.3	87.9	92.8 (a)
Lowest samples			95.1	85.6	90.9 (a)
North Illinois (northern Ind., northern Ill., eastern Iowa & Wis.)					
District averages	5	7	96.7	87.3	92.0
Highest samples			99.4	98.0	93.2
Lowest samples			94.8	86.6	91.4
Central Mississippi (western Ky., southern Ind., southern Ill. & eastern Mo.)					
District averages	8	20	96.4	87.3	91.8
Highest samples			97.9	88.1	92.7 (a)
Lowest samples			95.0	86.4	91.1 (a)
Lower Mississippi (Miss., La., eastern and southern Ark. & western Tenn.)					
District averages	5	10	97.3	86.7	92.1
Highest samples			99.3	87.5	93.4 (a)
Lowest samples			94.8	85.1	91.0 (a)

(continued on next page)

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District	No. of Brands	No. of Samples	Research ASTM	Motor ASTM	R+M ÷2
North Plains (Minn., N.D., & S.D.					
District averages	1	1	97.5	87.4	92.5
Highest samples			97.5	87.4	92.5
Lowest samples			97.5	87.4	92.5
Central Plains (Neb., central & western Iowa, northwest Mo. & northern Kan.)					
District averages	1	1	98.6	86.8	92.7
Highest samples			98.6	86.8	92.7 (a)
Lowest samples			98.6	86.8	92.7 (a)
South Plains (southern Kan., southwestern Mo., western Ark., Okla. & northern Texas)					
District averages	4	6	96.4	86.3	91.4
Highest samples			97.6	87.5	92.5 (a)
Lowest samples			95.7	85.2	90.5 (a)
South Texas					
District averages	6	11	97.0	86.5	91.7
Highest samples			99.7	87.5	93.3 (a)
Lowest samples			95.6	85.4	91.5 (a)
South Mountain States (southwestern Kan., Okla., & Texas Panhandles, West Texas, N.M., Colo., Utah, Ariz., Nev. & eastern Calif.)					
District averages	4	8	96.7	86.1	91.4
Highest samples			97.3	86.5	91.9 (a)
Lowest samples			96.3	85.4	91.2 (a)
North Mountain States (Wyo., Mont., Idaho, eastern Wash. & eastern Ore.)					
District averages	2	2	95.8	86.2	91.0
Highest samples			96.2	86.2	91.2 (a)
Lowest samples			95.3	86.1	90.7 (a)
Pacific Northwest (western Wash. & western Ore.)					
District averages	6	8	96.3	86.7	91.5
Highest samples			97.6	88.4	92.0 (a)
Lowest samples			95.4	85.8	90.7 (a)
North California					
District averages	3	3	97.0	86.1	91.6
Highest samples			97.3	86.6	92.0 (a)
Lowest samples			96.6	85.7	91.2 (a)
South California					
District averages	5	8	96.7	86.5	91.6
Highest samples			97.5	87.3	92.1 (a)
Lowest samples			95.6	85.7	91.2 (a)
NATIONAL AVERAGES					
Summer 1982	—	205	96.8	86.6	91.7
Winter '81-'82	—	222	96.6	86.8	91.7
Summer 1981	—	163	96.3	82.2	91.3

(a) These are individual samples in each category. Thus, on these lines R + M ÷ 2 will not correspond authomatically to the totals of the research and motor methods divided by two in the normal fashion.
Source: Bartlesville (Okla.) Energy Technology Center, Department of Energy, Motor Gasolines, Summer 1982, April 1983.

Sun is probably throwing a lot better than 93.5 octane gasoline into the market; perhaps 93.7, or 93.8 or 93.9, so that at no point will its pump number fall below the advertised rating.

The government currently is evaluating the samples of gasoline taken in the winter of 1982-83. Results won't be available for another month or so, but they'll be interesting to review.

The gasoline samples are collected from service stations throughout the country and are analyzed in the laboratories of refiners, motor manufacturers and chemical companies. The analytical data are sent to Bartlesville for compilation under a cooperative agreement with the American Petroleum Institute.

All of the data are coded so that the identities of the oil companies and the samples are concealed. The 1982 samples came from 22 oil companies large and small.

The latest report is broken down into the four key categories for unleaded and leaded grades. There hasn't been much change or movement in the octane numbers in the unleaded gasolines below 90. The same holds true for leaded regular below 93.0 octane. Sampling of leaded regulars above 93 octane really hasn't gotten off the ground yet. The first year (winter, 1980-81) showed an industry average of 93.3. The winter of 1981-82 showed an average of 93.0, but that was based on only one sample. No samples were taken in the summers of 1981 or 1982.

For copies of the full octane report for summer 1982, contact the National Technical Information Service in Washington.

—J. Richard Shaner

Jobbers Adjust to Mobil's Midwest Pullout

Although many jobbers were surprised in mid-May when Mobil Oil Company announced it would withdraw from several Midwest states, many of the estimated 300 affected distributors apparently aren't having problems finding new suppliers.

The move affects a total of 720 branded outlets, 85 of which are owned or leased by Mobil. The pullout will eliminate 60 to 70 salaried positions at service stations and 400 other company jobs. Mobil says these employees will be offered other jobs within the company.

"Jobbers here are in a state of shock. The pullout hit rather suddenly," says George Watters, of the Nebraska Petroleum Marketers Assn. But he and other association executives hasten to add that many suppliers seem interested in picking up new business. Several suppliers even contacted association offices for lists of affected distributors.

On May 19, Mobil announced it would close its 66-year-old Augusta, Kan., refinery within a year. The company also will gradually withdraw from marketing gasoline and distillates in Kansas, Nebraska and South Dakota and parts of Iowa, Missouri and North Dakota. Mobil, however, will continue marketing lube oil and aviation fuel in those areas.

Within that year, the company also will phase out operations at its terminals in Topeka and Kansas City, Kan.; Omaha, Neb.; Sioux Falls, S.D.; and Sioux City, Iowa, as well as related pipeline facilities.

The federal Petroleum Marketing Practices Act requires only six months advance notice of a pullout, and several association execs praised Mobil for the way it has handled the withdrawal. The execs generally say a year should provide enough time to find suppliers.

The company has pledged to help jobbers find new suppliers and says franchisees will have the first option to buy the outlets it vacates.

Mobil says the withdrawal reflects excess refining capacity and declining demand. The company also says the Augusta refinery has not been competitive because it cannot process high-sulfur crude. The refinery has been operating at about 50% of its 50,000 b/d capacity and is the smallest refinery in Mobil's system. **NPN**

States Affected by Mobil Pullout*

	Gasoline Market share Before	After
Iowa	4.8%	4.3%
Kansas	5.6%	0%
Missouri	4.0%	3.3%
Nebraska	7.1%	0%
North Dakota	10.3%	2.7%
South Dakota	12.3%	0%

***Partial withdrawals are planned in western Iowa, northwestern Missouri and west central North Dakota.**

August 1983 $4.00

Jobber Turns Tires into C-Store Items

Indie Refiners, Marketers Reeling

Can You Afford Your Transport Fleet?

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Alcohol Fuels Boom: Industry's New Time Bomb?

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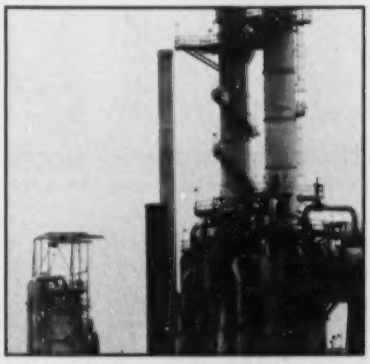
The oil industry has a potentially explosive situation on its hands with the fast-growing trend of lacing gasoline with ethanol and methanol, and prolonged pump price wars seem to be fanning the fuse. **Page 36**

Cover photograph by John Apolinski.



The sudden 'for sale' sign posted early last month by Asamera has served as a poignant indication to independent refiners and marketers alike that wrenching attrition among their ranks is not over yet. **Page 27**

Rising operating costs, coupled with sinking product demand in recent years, have prompted many jobbers to reevaluate whether they can afford a truck fleet these days. **Page 46**

• TRENDS

Automated Fueling Poised To Boom as Self-Serve Did

Automated credit card and debit card gasoline marketing appears to be on the verge of rapid development. Some market observers even see the trend sweeping over gasoline retailing the way self-service did in the 1970s.

What this entails essentially is the use of a magnetically coded card inserted into an acceptor to activate the dispenser and pay for the purchase. That's it.

In concept, this is old hat, of course. It's superficially like the old cardlock systems of the 1960s. But what's different now is that the new generation of automated card systems will be part of vast communication networks working in concert with banks and other retail giants.

The banks are the key to how fast and pervasively the trend will develop. They are also the reason that although the concept has been around for a long time, the actualization has been relatively slow in coming.

The communication networks needed to support automated card systems are prodigious. For some time, individual banks entertained the idea of stealing the march on other banks by building networks of their own. The prize was (and is) billions and billions of dollars of deposits based on gasoline purchases. For banks, deposits are practically equivalent to profits.

The coming of automated teller machines (ATMs) a few years ago hastened the development of communication networks needed to handle bank transactions electronically—not just at the branch bank of the individual checking account, but at any and all banks in the system.

The cost of ATM equipment, while considerable, pales alongside the cost of establishing and maintaining a communication system eternally on-line to accomplish the electronic debiting and crediting. This is called "telecommunications," and it is the nerve network of any automated card system.

Once banks decided that development could be speeded up by getting together with other banks, the logjam was broken. Partnership brings about a breakthrough in telecommunication costs.

Large ATM networks like MPACT in Texas have begun to spring up. Five California banks have gotten together in the hope of forming a debit card network, and they understandably are seeking participation of major oil companies to make the systems fly from the beginning.

Some oil companies individually—for example, Shell and Chevron—are working feverishly to set up networks of their own in conjunction with a bank or national retailer.

On the horizon, it is not inconceivable that all of this will be tied together in one immense system.

Automated credit card purchases will dominate for a time, but likely will give way to debit card purchases. This is simply the elimination of paper check writing; money is transferred from buyer to seller electronically.

This may sound remote to an everyday gasoline marketer, but it isn't. The whole system relies on a point-of-sale terminal tied into the system. As a practical matter, it means each station will need a computer of its own.

This will most likely not be a computer that a retailer or jobber himself must "program" (perish the thought), although some "user-friendly" systems might allow for that. It is a machine that will perform the necessary functions without its user necessarily knowing *how* it is happening.

A computer is an electronic processor that allows system modification without requiring new hardware. With a computer built into point-of-sale terminal equipment, changes can be made by altering programs.

A number of equipment suppliers are known to be getting ready for the revolution. One is GA Technologies, La Jolla, Calif. It has just set up a new subsidiary, Electronic Marketing Systems (EMS), expressly for developing a computerized system that can be upgraded with the times.

"We want to do things in software (programs) that people have had to do heretofore with hardware," says Mike Juha, EMS sales and marketing manager. "Our belief is that any product from this day forward has got to be designed so that if a customer wants to reach out into an automated teller network, the system has the flexibility to communicate with it."

GA Technologies, formerly General Atomic, was an early entrant in self-serve automation equipment in 1974. It has installed more than 10,000 systems in the intervening years, during which time self-serve took over two-thirds to three-quarters of the gasoline market.

Says Juha, "We think that in another eight or nine years, credit card and debit card access equipment will have the same share of the market self-serve does now. We're predicating our new product plans on that."

—Mark Emond

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

MAY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.243	$1.177	$1.259	$1.376
Regions:				
Northeast	1.251	1.186	1.255	NA
North Central	1.263	1.217	1.282	NA
South	1.223	1.154	1.239	NA
West	1.237	1.153	1.260	1.379

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	7/1/83	7/2/82
Gasoline (total)	224,055	219,078
Gasoline (unleaded*)	88,749	88,279
Kerosine **	35,665	34,242
Distillates	114,266	125,754
Residual	47,117	58,863

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

Pittston Gives Up 10-Year Fight for Maine Refinery

The Pittston Co., which tried for 10 long years to get permission to build a 250,000 b/d refinery in Eastport, Maine, has finally given up—beaten down more by hard economics than by persistent environmentalists [NPN—May '83, p27].

In April 1973, when Pittston bravely announced it would like to give the Northeast its first major oil refinery, it estimated the plant would cost about $300-million and could be onstream within 30 months of government and environmental agency approvals.

Throwing in the towel in mid-June, Pittston says the refinery would now cost more than $1-billion. Not only is it just about back to square one in getting approvals to proceed, but the big picture itself has changed. Refineries are a drug on the market and more than 2-million b/d of capacity have been mothballed or dismantled in the last two years alone [NPN—May '83, p32].

Pittston spent more than $5-million in its years-long quest for the array of approvals that are necessary on local, regional, state and federal levels. It was bushwacked at every turn by environmentalists who trotted out bald eagle nesting grounds and humpbacked whales as possible victims of a refinery that would have given the Northeast its first sense of security in product availability.

The demise of the Eastport project just about wrote "finis" to the New England area's hopes of ever having refining and crude storage facilities "at home."

Some environmentalists will declare victory in killing not only this refinery but also the one that had been scheduled to be built in Portsmouth, Va., harbor, which also went down the drain because of delays and escalating costs that made continuation prohibitive. NPN

PMEF Sets Annual Leadership Program

The Petroleum Marketing Education Foundation is offering its annual "Executive Leadership Program for Oil Marketers" at the University of Houston Sept. 11-16.

The program, oriented primarily toward jobbers, will include such topics as "Interpersonal and Organizational Communication," "Financial Statement Analysis," "Tax Strategies," "Performance Planning and Evaluation," and "A Manager's Perspective on Marketing."

Tuition is $710. Registration information can be obtained by writing to PMEF, 1215 Lady St., P.O. Box 11187, Columbia, S.C. 29211. Telephone (803) 252-5546. NPN

Station Repair Billing Up, If Mechanics on Commission

For jobbers whose stations do repair work, are sales affected by the form of mechanic compensation?

Indeed, yes, according to findings from a recent survey of nearly 500 service stations, repair shops and car dealers across the country. What's more, hourly labor charges for service station mechanics have increased nearly three-fold since 1975, while mechanic hourly wages during that time have not even doubled. That leaves one to believe that other escalating operating costs have had to be covered by higher billing for labor during the last eight years.

These and other observations are the result of a survey by Hunter Publishing, publisher of *NPN* and *Service Station Management*, from which these conclusions are drawn. The results of the survey conducted in May also contain exclusive data on the impact of NIASE (National Institute for Automotive Service Excellence) certification on mechanic earnings. Other highlights include:

- In 1983, the average full-time experienced service station mechanic earns approximately $17,600 per year. A full-time beginner mechanic earns about $12,200

Mechanic Salaries and Benefits:

	Full-time/experienced	Full-time/beginner
Average annual earnings	$17,600	$12,200
$30,000 or more per year	2.2%	.6%
$25,000 to $29,999	7.2	—
$20,000 to $24,999	18.3	1.1
$15,000 to $19,999	37.3	10.2
$10,000 to $14,999	31.8	48.4
under $10,000	3.2	39.7

Fringe benefits offered:	Company pays cost		
	All	Some	None
Life insurance	19.8%	10.6%	69.6%
Minor medical insurance	23.2	11.9	64.9
Major medical insurance	29.3	14.8	55.9
Disability insurance	31.1	6.6	62.3
Dental insurance	2.6	1.3	96.1
Pension plan	5.8	3.8	90.4
Profit sharing	4.5	2.6	92.9
Bonus	40.8	8.3	50.9
Paid vacation	81.4	5.2	13.4
Training (clinics-schools)	58.2	12.9	28.9
Work uniforms	65.9	16.2	17.9
Hand tools:			
Mechanic provides his own			49.5%
Station provides			51.3
Share costs or split for special purposes			9.8

Characteristics of Mechanics' Employers:

Average hourly labor charge	$21.35
Number of full-time mechanics (average)	2.5
NIASE certified mechanics	
all are certified	12.7%
some are certified	32.4%
none are certified	54.9%
Union shop	
yes	1.7%
no	98.3%
Method of compensation	
hourly wage	45.2%
salary	27.9
flat rate	2.0
commission or piece work	4.9
percent of labor rate	3.7
salary plus commission	12.6
hourly wage plus commission	11.8
Average number of hours per week for full-time mechanics	44.8

every year, excluding benefits.

• Generally, mechanic pay is on the upswing, but it has not kept up with the national rate of inflation over the past eight years.

• Those stations which employ mechanics certified by NIASE pay significantly higher salaries, on average, to their mechanic employees than those which do not have certified mechanics.

• Mechanics who work on some form of commission or percentage of the labor rate basis generally earn substantially more than those working on straight salary or an hourly wage basis.

There is also strong evidence that compensation programs which include incentive pay such as commissions have a measurable, positive effect on station repair and service dollar volume.

Among *SSM's* respondents, those station operators who paid straight commissions employed an average 2.6 mechanics per station, only slightly above the 2.5 national average. Yet their annual dollar volume was $209,000 for repair and service work, for an average of $80,000 per mechanic.

Compare this with the average dollar volume of stations paying straight salary (2.4 mechanics per station). The straight-commission stations average almost $60,000 more per year in service dollar volume and nearly $20,000 more in revenues per mechanic—one third more.

A few other conclusions from the survey tend to cast station operators as not the most benevolent group of employers. *SSM* reports:

• Average earnings for service station mechanics still lag behind those of repair shop ($18,200) and dealership ($19,500) mechanics, but the gap is narrowing. Part of this difference is attributable to the fact that station mechanics frequently have duties (pump island, etc.) which are less renumerative.

• A little over half of the stations reporting provide their mechanics with hand tools.

• So far, unionization is not a factor among service station mechanics. Less than 2% are unionized.

• Service station mechanics put in longer hours on average than mechanics in other segments of the aftermarket—a total of almost 45 hours per week. This may also reflect the longer hours of operation in the typical service station.

• In 1975, 70% of the stations offered their mechanics some form of bonus program. That number shrank to 49.1% by 1983, a decline of 30%. In fact, benefits in every category—pensions, insurance, profit sharing, etc.—have declined since 1975, except for paid vacations, which remains the most common fringe benefit (87% of stations providing).

—Donald M. Smith

How Compensation Method Affects Sales:

	Station repair volume	Mechanic repair volume
Hourly wage (2.4 aver. mechanics per station)	$170,000	$71,000
Salary (2.4)	151,000	61,000
Commission or piece work (2.6)	209,000	80,000
Percent of labor rate (2.7)	193,000	72,000
Salary plus commission (2.3)	163,000	71,000
Hourly wage plus commission (2.8)	193,000	69,000

Certification Pays Off for Mechanics . . .

	Average annual earnings (experienced mechanics)
Stations with all NIASE certified mechanics	$19,500
Stations with some certified mechanics	19,100
Stations with no certified mechanics	16,100
Average income, stations with all or some certified mechanics	19,300

What Commission Mechanics Earn:

Hourly wage	$16,600
Salary	17,200
Commission or piece work	21,600
% of labor	18,700
Salary plus commission	18,700
Hourly wage plus commission	17,500

Source: Hunter Publishing Company

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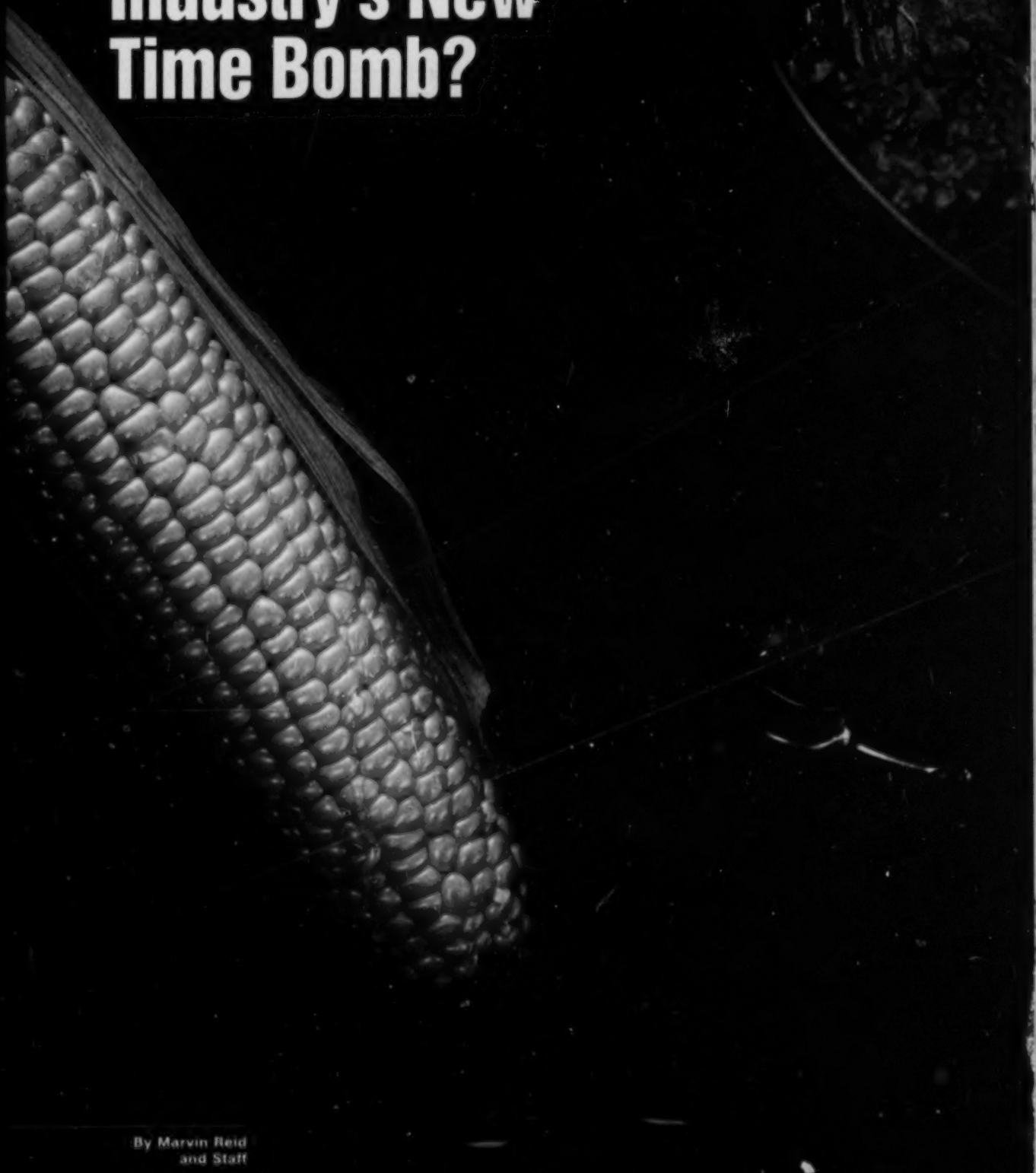
Alcohol Fuels Boom: Industry's New Time Bomb?



By Marvin Reid
and Staff

The oil industry might have a ticking time bomb situation on its hands with the fast-growing trend of lacing gasoline with ethyl alcohol (ethanol) or methyl alcohol (methanol).

Prolonged retail price wars and low margins are forcing an increasing number of marketers to mix the alcohols in their motor fuels as a potential cost-cutting measure.

A few might be exceeding recommended mixtures, according to rarely verified rumors, which could cause equipment damage and product-quality image problems. And, some of this methanol-laced fuel even violates federal standards.

Total sales of ethanol-enhanced motor fuel could approach 4-billion gal. this year, more than quadrupling 1981 sales of about 829-million gal., estimates Frederick L. Potter, a Washington, D.C., consultant. [See page 38 for Potter's analysis of today's market.]

Most of the alcohol blend activity has been in ethanol, which has a fairly good track record for proper blending from its "gasohol" days of the 1970s. But methanol-laced gasoline sales are on the increase, too, and this has some industry and government sources concerned. Experts recommend much greater care be taken with methanol as compared to ethanol blends. [See story page 41.]

There is, however, a huge surplus of methanol currently, and it is dirt cheap compared to ethanol. Marketers increasingly are turning to it, especially, as some states move to reduce or wipe out tax exemptions on ethanol.

"The greed to survive is causing some marketers to do things they might not ordinarily do," says a large independent of the trend to methanol and rumors that some jobbers might be selling lopsided blends.

Some horror stories are being passed around the industry of instances where excessive amounts of both ethanol and methanol have caused problems.

It's Purely Economics

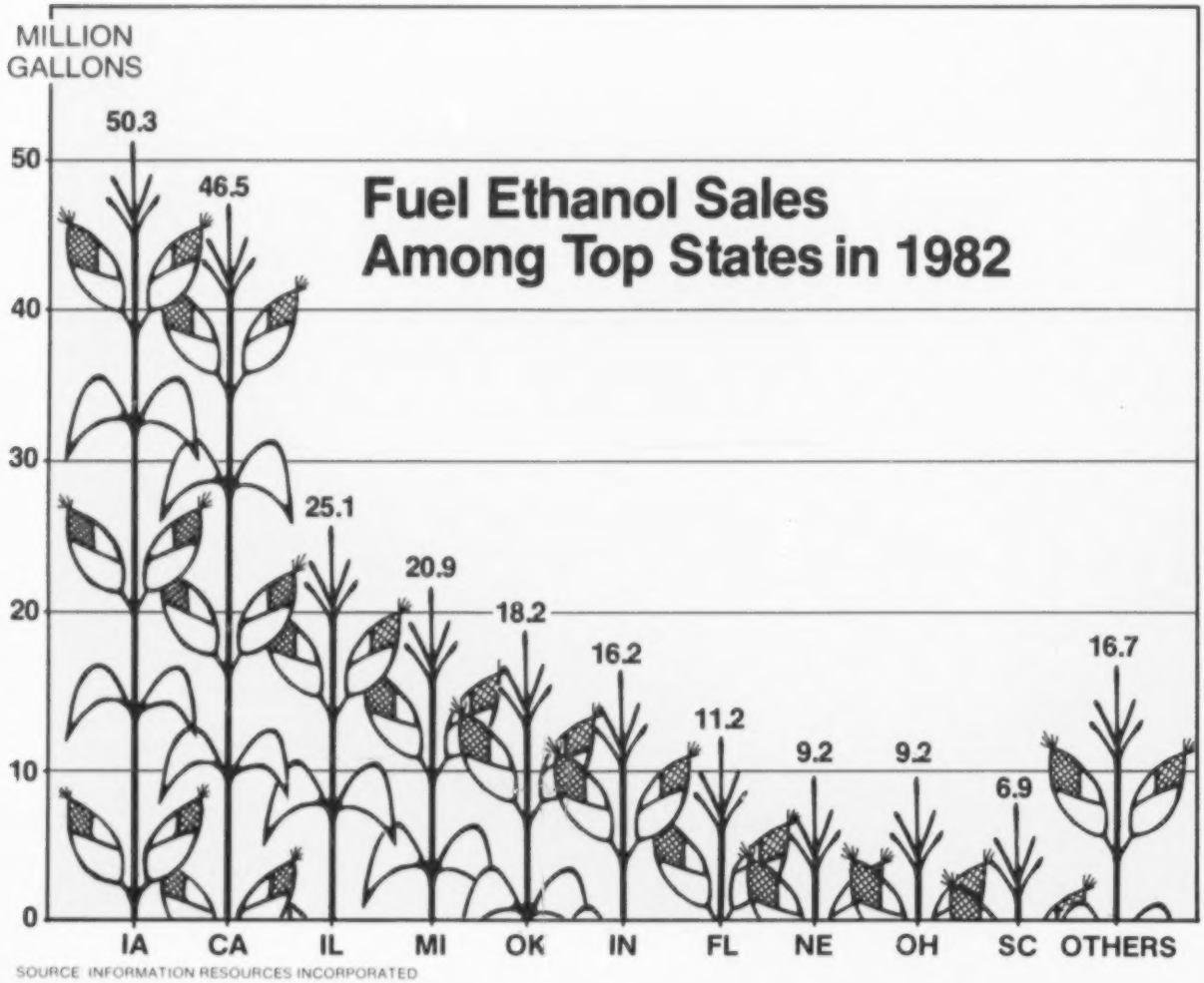
Marketers have been turning to either ethanol or methanol blends in recent months in hopes of possibly shaving their net fuel costs. Even a 1¢ or 2¢ gal. savings, some say, can mean the difference between surviving and not surviving the industry's prolonged price wars.

Many have learned they can use ethanol blends as an "octane booster." By adding 10% ethanol to 90% unleaded regular, they wind up with a "premium" unleaded. With excise tax subsidies, the net cost of such ethanol-laced fuel is often cheaper than ordinary "premium" unleaded. [See page 38.]

Methanol also can be used as an octane booster, and for a much cheaper price than ethanol.

Jobbers generally report paying about $1.70 gal. currently for ethanol, compared to 50¢ gal. for methanol. Although methanol isn't exempt from taxes in most states, its low price almost offsets the best tax breaks on ethanol.

Earlier this year, three states gave excise tax breaks to methanol blends: Ohio, Iowa, Utah and Washington. By mid-July, Utah legislators had passed a bill to tax natural gas-derived methanol, and Washington gutted its methanol blend tax break entirely effective last month. And, in early July, Ohio legislators voted to drop the tax credit in that state.



SOURCE: INFORMATION RESOURCES INCORPORATED

But the bottom line is marketers can obtain a 2¢ to 4¢ edge by using accepted blends of ethanol or methanol.

Horror Stories

While jobbers are tempted to take advantage of whatever cost savings they might achieve with either ethanol or methanol blends, experts urge caution.

Several months back, according to rumors, a handful of jobbers in a Southwest state purchased what they presumed to be plain, ordinary gasoline from a large terminal operator.

They mixed 10% ethanol with it and went to the market with what they thought was 90% gasoline/10% ethanol.

But the terminal operator, some sources speculate, had earlier "upgraded" the gasoline by using either straight methanol or tertiary butyl alcohol (TBA) or "something similar." Whatever he used, these sources believe, the gasoline contained 10% alcohol when it left the terminal.

The jobbers, by adding 10% ethanol, actually wound up with 80% gasoline, 20% alcohol.

They also wound up with many, many problems. In addition to damaging their own equipment, motorists filed complaints, and there were investigations. Some of the jobbers were reported to have suffered individual losses of $300,000 to $400,000.

The jobbers reportedly bought the gasoline from a St. Louis terminal operator who gained a great deal of unwanted publicity in that city. [See page 40.]

In Utah, where a 5¢ gal. state tax exemption exists for methanol gasoline blends (although under legislative scrutiny last month), both sales and customer complaints have been soaring in recent months. One Utah jobber quit selling such fuel after his own car stalled.

A Tennessee jobber, who says he isn't "in alcohol," has found it necessary, nevertheless, to regularly pull gasoline samples from his station storage tanks and have them "verified."

"Some customers buy that junk else-

Blends Buck Trend of Dipping Demand

By Frederick L. Potter

Despite sluggish motor fuel demand over the past two years, the production and use of alcohol fuels have skyrocketed to comprise more than 5% of the U.S. gasoline market and as much as 10% in some states.

In fact, demand for fuel-grade ethanol presently exceeds production capacity of all major producers. Such pressure is leading to expansion of ethanol capacity from 660-million gal. this year to an estimated 700-million next year and possibly reaching 1-billion gal. by 1986. At that rate, more than 10% of all gasoline sold in the U.S. could contain ethanol by 1986, if blending facilities operate at or near capacity as they do currently.

That prognosis comes on the heels of a five-fold increase in ethanol-enhanced motor fuel consumption since the so-called "gasohol era" (1978-80) when fuel-grade ethanol was backed staunchly by the government. The "gasohol—America's home-grown fuel" hoopla of the Carter administration and Congress yielded 4¢ gal. federal excise tax breaks and $8.5-million-plus subsidies for alcohol production.

But a one-stroke solution to grain surpluses and OPEC's vise-grip had its own problem: motorists were reluctant to buy what they perceived to be an inferior fuel.

Since that time, marketers have seen to it that the "gasohol" tag has fallen out of vogue and have replaced it with "super unleaded" or "ethanol-enhanced" labels at the pumps. Jobbers who are involved with alcohol fuels are promoting successfully the octane enhancement characteristics. Fuel-grade ethanol has a 118 octane rating (R+M/2 or "research plus motor methods over two), compared to regular unleaded octane ratings from 91 to 93.

In general, sales of ethanol blends run highest in states where premium gasoline sales levels fall well below the 10.8% national average. And, seven of the top 10 states in ethanol blend sales have experienced lower than the national average of premium sales—the idea being that ethanol blends are displacing premium sales in at least some of those states.

During the infancy years of "gasohol," ethanol distribution was relegated to small quantities on a sporadic basis to scattered minor marketers. Today, the channels of distribution are more sophisticated and efficient, to the point where pipeline transportation is considered commercially viable. In addition, the "mom and pop"

Potter is president of Information Resources, Inc., a Washington, D.C.-based consultancy which focuses on alcohol fuels and other energy industries.

How Ethanol "Super Unleaded" Compares to Premium Unleaded

	Making "Super Unleaded" with ethanol	Premium Gasoline (without ethanol)
Wholesale unleaded gasoline cost*	(87 octane) (90¢ x .45) = 40.5 (91 octane) (94¢ x .45) = 42.3 82.8¢	(91 octane) (94 x 1.0) = 94.0¢
Ethanol	(118 octane) ($1.70 x .1) = 17.0 99.8¢	
Iowa state tax (for example) *(with 5¢ exemption)*	8.0 107.8¢	13.0 107.0¢
Federal tax *(with 5¢ exemption)*	4.0 111.8¢ (92 octane)	9.0 116.0¢ (91 octane)

Source: Information Resources, Inc., Washington, D.C.
***Figures based on legal blended limit of 90% unleaded gasoline (.45 + .45) and 10% ethanol (.1) by content.**

Nation's Leading Fuel Ethanol Producers

Company	Location	Capacity (million gal./yr.)
Archer Daniels Midland (ADM)	Decatur, Ill.	120
	Cedar Rapids, Iowa	60
	Peoria, Ill.	60
Pekin Energy	Pekin, Ill.	60
South Point Ethanol	South Point, Ohio	60
A.E. Staley	Loudon, Tenn.	40
Kentucky Ag. Energy	Franklin, Ky.	21

Source: Information Resources, Inc., Washington, D.C.

where, and they don't have trouble for two or three tank fulls," says this jobber. "Then, when trouble develops, they go to a mechanic and the mechanic says they've got bad 'gas' with water in it. We just want to prove to these customers they aren't buying it from us."

Ohio and Michigan may be leading the nation at present in both methanol blended gasoline sales and Environmental Protection Agency investigations. [See stories on page 40.]

Roger Smith, editor of *Alcohol Week*, has estimated that methanol sales in Ohio may range as high as 20-million gal. annually, or up to one-third the total U.S. methanol motor fuel market. EPA has been conducting probes of possible violations in Detroit and throughout Ohio.

At times, reports indicate, a marketer may start off with only recommended methanol blends but then, exceed them in a desperate effort to survive today's competition. This happened to an independent marketer in California, sources there report. The indie, as a last resort, was "dumping methanol directly in his storage tanks" shortly before he "bellied-up," sources there claim.

Not All Bad Nor Crooked

While there have been rumors of independents and jobbers in certain areas attempting to blend as much as 10% or 20% methanol in motor fuel, most industry sources doubt many are attempting such heavy concentrations.

At least, these sources add, no marketer will try to blend in that much for very long.

"You put that much methanol in gasoline and you'll have problems you never dreamed of," says a major company executive who once headed up an alternate fuels study program. "It would eat the lining out of your storage tanks, cause water separation, cause swelling of your elastomers, and your vapor pressure would go all to hell." [See story page 41.]

Most authorities agree that equal amounts of corrosion inhibitors need to be added with methanol blended into gasoline. Otherwise, equipment and cars can be damaged.

Atlantic Richfield and Sun Co., among the majors, have approval from EPA to market a blend that contains about 4.8% methanol and 4.8% cosolvent. Petrocoal, controlled by Ocelot, a Canadian methanol manufacturer, is permitted a blend that employs up to 12% methanol and 6% cosolvent in the U.S.

Du Pont recently was denied an EPA waiver to use 3% methanol without any cosolvent.

Some oil company people think EPA's limits on methanol blends are too strict insofar as corrosion problems are concerned. They point out almost all major and independent brands of gasoline contain corrosion inhibitors, although they agree more cosolvents should be added for large amounts of methanol blends.

Ed Guetens, business manager for octane components at Atlantic Richfield Chemical, believes there is too much scare talk about botched methanol blends on the market. Lots of technology has been developed, he says, to enable the refiner and blender to use methanol properly.

Guetens says Arco Petroleum is currently marketing in the Northeast a methanol blend trademarked "Oxinol" in its gasoline at savings of up to 2¢ gal.

Such cost-cutting potential, of course, is the prime reason jobbers and others have been rushing to get into methanol.

Southland Is Testing

Some large independent chain retailers are now test-marketing methanol blended gasoline, and others say they may be forced to begin doing so "for defensive reasons."

The Southland Corp. has confirmed test-marketing Arco's "Oxinol" blend in Houston with what a company official describes as "good results." There have been rumors of Southland testing methanol in other markets in the Southeast and Rockies, but this company source indicates the large convenience store chain is proceeding cautiously.

"We think it shows much promise, but we've found methanol prices firming up recently," says the Southland source. "We aren't sure there will continue to be that much price advantage, and you have to be very careful with the blends."

Truman Arnold of Arnold Distributing Co., Texarkana, Texas, is one large chain retailer who admits to having been burned by product laced with methanol without his knowledge by a small blending plant. While he did get into ethanol blends in the 1970s, Arnold remains apprehensive about methanol, saying he has heard of as much as a 20% evaporation loss from some "methanol-plugged product."

"We believe there is some methanol product in one of our markets because it's selling at 2¢ to 3¢ under rack prices," adds Arnold. "But we aren't going to

stations with such blends have become overshadowed by the likes of Texaco, Chevron, Ashland, Cities Service and Amoco outlets.

Since those early years, ethanol makers have had a much easier time promoting their product to gasoline distributors. Both octane and marketers' profit margins are boosted with the use of the blended fuel. [See breakdown comparison in chart.]

It remains true, however, that federal and state tax incentives claim credit for much of the success of ethanol blends. More than 100 fuel ethanol plants have been built in the U.S. since the government instituted industry incentives in 1978. And, 33 states currently offer tax breaks—on top of the federal 5¢ gal. exemption—for use of ethanol blends, in some cases leading to a 4.2¢ gal. increase in marketers' profit margins.

Methanol Boom Simmers

Methanol blends, on the other hand, are regarded more as a fuel of the future. Last year, 60-million gal. in methanol sales compared to some 240-million gal. for ethanol. But methanol's potential contribution to the motor fuel market can be greater than ethanol's throughout North America.

Like ethanol, methanol offers high octane (120R + M/2) and can be used as an alternative to lead, which has been used by smaller-sized refiners and blenders.

What's more, as industrial methanol chemical markets have lagged in recent years, the North American methanol industry expects to have some 500-million gal. of excess production capacity by the end of the year available for the motor fuel market. This means an abundance of supply at prices as low as 50¢ gal. So, unlike ethanol, methanol is not dependent on tax breaks to compete in the marketplace.

Further, stringent lead-content mandates from the government and a continued surplus of grain will enhance the prospects for alternative octane enhancers. Meaning: the pressures that have lead to explosive growth in alcohol blends will continue to grow.

Some Straight Advice on What Legal Blends Are . . .

Confusion abounds as to how much ethanol or methanol a marketer should allow in his gasoline. Here is the straight dope:

Under Section 211 of the Clean Air Act, the Environmental Protection Agency has limited the amount of "pure" methanol added to unleaded gasoline to 0.3% by volume. (No such EPA limits exist for leaded gasoline.)

Neither are there regulatory limits on ethanol mixtures—contrary to popular belief.

Industry experts, however, say a 10% ethanol/90% unleaded gasoline mix is acceptable. They also recommend that not more than 0.4% methanol be mixed in motor fuel, unless cosolvents are added to inhibit water separation and corrosion.

If methanol is blended with another alcohol of equal or greater molecular weight, as much as 2.75% methanol can be used, says EPA. Thus, the total mix of alcohols can be as high as 5.5% by volume, without special permission or waivers being granted.

Arco Chemical and Sun Co. hold such a waiver for Arco's "Oxinol 50." This 50-50 blend of straight methanol and gasoline-grade tertiary butyl alcohol (GTBA) is comprised of nearly 9.6% alcohol.

mess with it. You get some bad product in your system and it can really disrupt things."

Experienced ethanol-blended fuel sellers point out that automobiles don't have to be specially equipped or tuned to operate on the typical 10% ethanol/90% unleaded gasoline blends. This is not so with methanol blends this high.

One 'Beautiful Fuel'

But many automotive and oil industry experts agree that, for cars equipped and fine-tuned to operate on methanol blends, the alcohol becomes a "beautiful fuel."

"It has about one-half the BTUs (British thermal units) of gasoline, but you get far more efficient use from a gallon," says Charles Shuttleworth of Conoco, who participated in a joint test program between Conoco and the State of California two or three years ago.

Conoco has since dropped out of the California program and Redwood Oil Co., a Sacramento jobber, has replaced it. Kenneth D. Smith, manager of the California Energy Commission's synthetic fuels office, says he wants to have 18 "fueling points" in operation by August, supplying some 500 specially designed Ford escorts with a blend of 90% methanol/10% unleaded.

Redwood Oil is buying methanol for this project from Celanese Corp. at a "laid-in" price of 60¢ gal. It plans to have retail prices of 79.9¢ gal. including taxes.

Such testing could play a big role in methanol's potential future as a motor fuel. Some experts even believe that eventually, a "pure" (or "neat") methanol will replace gasoline as a motor fuel.

At the same time, however, a comprehensive study of methanol's motor fuel potential by the California Institute of Technology and the Jet Propulsion Lab reaches a much less enthusiastic conclusion. It says that the current trough in crude oil prices and a traditionally high cost of methanol production from natural gas or coal will stunt the growth in methanol blended fuel until at least 1990. Only then, the report states, will methanol begin to compete with ordinary gasoline as "America's motor fuel of the future."

But for the time being, methanol marketers aren't thinking about more production. They have a supply glut which some sources say couldn't be worked off in five years, even with a tremendous rush by gasoline marketers to buy methanol for present blending operations.

Most sources believe methanol supply and prices will remain just right for fast future growth of methanol blends. Many are genuinely concerned, however, that efforts by a few to blend too much methanol into gasoline could result in a major scandal that would definitely stunt the potential growth. NPN

St. Louis Jobbers Learn Hard Way . . .

In St. Louis during the spring of 1982, Inland Oil's supply of cheap gasoline seemed like a gold mine, while the market's response to the product resembled a "gold rush."

Punch-drunk from stiff market competition, St. Louis marketers clamored to buy what later was determined to be a methanol blend from the Missouri-based terminal operator and multi-state jobber. Another large independent terminal operator now says Inland's wholesale prices at that time bested average St. Louis rack prices by 2¢ to 3¢ gal.

Other sources say Inland, today, is on its way out of business. Inland's attorney, however, labeled the idea "ridiculous."

A surfeit of stalled autos, a deluge of motorist complaints and a rash of publicity led to what has been called a "witch hunt." The Missouri attorney general sued Inland and its subsidiaries, Mars Oil and Marine Petroleum; Inland sued the attorney general; and a group of businesses filed a class action suit against Inland and "everyone who supplied them."

The attorney general created a hotline for motorists and promoted litmus paper tests for tail pipes. "It turned into a political football," says one St. Louis marketer. In all, state officials seek restitution for some 1,500 motorists in charging Inland with "misrepresenting an inferior fuel as gasoline" [NPN—June '83, p11].

For Inland's part, its attorney says the company has been victimized by inaccurate reports, saying the product Inland sold "could be considered gasoline, and was properly labeled."

Then, there's the legal and enforcement entanglements themselves. Both federal trade and environmental agencies had once considered taking legal action, but deferred to Missouri state authorities. State weights and measures officials, however, could only test product, not crack down effectively on marketers. And, 40-year-old state gasoline standards don't include fuel-grade alcohol specs—let alone levels such as Inland's 17% alcohol blend which officials discovered.

Local marketers, however, say stiff competition continues in St. Louis and anticipate more tainted gasoline.

"The refinery puts 4% in, and that makes his price cheaper," says a large indie marketer. "Then, he sells it to a distributor, who dumps 5% methanol into it and sells it to a service station operator, who *also* wants to get some mileage out of an alcohol blend."

"There's a tremendous amount of fuel being marketed off the (Missisippi) river, primarily blended with products that enable the sellers to underprice the normal market," says John Hahn of the Missouri Oil Jobbers Assn.

His group had been pushing a bill requiring gasoline to meet American Society for Testing & Materials standards, define alcohol blends, empower state officials to quash sales of illicit product, and require that retailers be notified about alcohol content in gasoline. (The governor signed the measure into law July 19.)

"We think if the bill is fully enforced, it will have a dramatic impact on market pricing," says Hahn.

. . . While Detroit Prepares *Its* Lesson

It's been said that Detroit motorists are so price conscious that if you filled service station tanks with water and sold it for 50¢ gal., motorists would sit in line to fill up.

"They don't even ask you what they're buying," says a long-time Amoco dealer regarding fuel that is conspicuously low-priced at the pump.

But while that city's petroleum marketers aren't masquerading as water peddlers, motorists there are ready, willing and, more importantly, *able* to buy tainted gasoline several pennies cheaper than the going price in what already had been a notoriously tough market.

"Absurdly low street prices and below-cost selling are driving the honest guys out of business," says Tom Cordell, executive director of the Michigan Petroleum Assn. (MPA).

"Two large refiners told me that they're getting killed in that area," says one Michigan chain retailer who refuses to sell in Detroit. "They want to close their stations down until the market gets better."

Some dealers report that motorists complain that their cars are stalling. When the fuel tanks are flushed out, the dealers say they find substances that barely resemble gasoline.

"It appears to us that there is a double-blending process going on," says Chuck Shipley, executive director of the Service Station Dealers Assn. of Michigan. "Some people are taking advantage of the tax break on a proper blend of ethanol, but using an 8-to-1-to-1 mix including methanol."

There are a host of problems with swelling of rubber parts in the carburetors, say repair shop owners. "We replace the parts and, before the warranty's up, two weeks later the customer brings the carburetor in again," says Kenneth Kirkman, of Kirk's Carburetors, the city's largest carburetor rebuilder. In fact, lopsided blends have been a source of hundreds of the company's repair jobs recently.

Marketers say this sort of blending

September 1983 $4.00

MacLeod: Are Multiple Supplies Cricket?
Overcharge Refunds May Be in Your Future
How Chicago Fuel Oil Firm Turns a Buck

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There is cautious optimism in the air among fuel oil dealers. Given a meaningful break in the weather, they could be in for a happier heating season. But there is also a note of concern in the outlook.

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Cover photography by Tony Keisman

Momentum is building among jobbers, refiners and others chasing after $6- to $10-billion in refunds stemming from crude and refined product overcharge cases.

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'It's often difficult for suppliers to respond objectively when a jobber asks about the possibility of having another supplier . . .'

Former Conoco exec C.O. MacLeod tackles a delicate question. **Page 69**

• TRENDS

A Ban on Self-Serve Leaded Is Still Live Issue at EPA

It was Henry Ford who reputedly told buyers of his early automobiles that they could have any color paint job they liked—so long as they liked black. Motorists pulling up to self-service pumps may soon face the same kind of choice. They'll be offered the gasoline of their choice—if they want unleaded.

For months, rumors have been flying around Washington that the Environmental Protection Agency (EPA) is seriously considering a ban on the sale of leaded gasoline at self-service pumps. EPA officials have told *NPN* that such a move "is one of several options being explored." But they refused to speculate whether such a proposal might become more than just an "option." Whether or not such a ban emerges from the recesses of EPA headquarters, it is a sign the agency is devoting a substantial amount of time and resources to ridding the air of lead pollutants and has not exhausted its supply of weapons.

The fate of the self-service ban probably will be decided by EPA's efforts to enforce federal laws against fuel switching and tampering with auto emissions control systems.

Enforcement definitely is being emphasized lately. Earlier this year, EPA slapped $5-million in proposed penalties on seven distributors and 10 retailers in the Chicago area for alleged fuel switching violations. Investigations are underway in several other areas, including St. Louis. The agency also is cracking down on repair shops that allegedly alter fuel and emissions systems to allow unleaded-only vehicles to operate on leaded gasoline [NPN—May '83, p45].

EPA is enlisting the aid of state officials, who can supply the needed manpower to make unannounced spot checks at retail stations, tank farms and refinery racks.

If EPA's crackdown on fuel switching is a success, one might presume a ban on self-serve leaded would never surface. But a top enforcement official says the prospect of a prohibition won't necessarily lessen, if a number of fuel switchers are nabbed. In fact, just the opposite may be true.

If investigations uncover a large number of cases, fuel switching may be far more prevalent than the agency now believes, according to EPA official Richard Kozlowski.

"If the practice is that widespread," says an aide to EPA Administrator William Ruckleshaus, "it may be more economical to limit consumer access to leaded gasoline (than to beef up enforcement further)."

One thing marketers can assume is that EPA's concentration on fuel switching isn't going to evaporate. There are several strong reasons for that.

First, automobile lead emissions is an easier issue to deal with than are other environmental problem areas like acid rain or toxic waste. There is agreement that lead in the air is harmful and that it comes from automobiles burning leaded fuel. Even when EPA was in the middle of its controversial lead phasedown proceedings, the best argument against the rules that refiners and lead additive makers could muster was that leaded fuel use is declining.

Fuel switching is an easy target. Evidence is not difficult to gather, and cases are easily won if they wind up in court. The laws against switching (and tampering) have been tested and aren't likely to be changed if Congress gets around to amending the Clean Air Act this year or next.

Finally, the embattled EPA yearns for high-visibility, non-controversial enforcement actions. A staff aide to Sen. Robert Stafford (R-Vt.), the leading Senate advocate for Clean Air legislation, puts it this way: "We've been pressing EPA to show us it is doing its job. This is one area where it can do that without much risk of a backlash."

The prospect of a regulation—or a law—prohibiting leaded gasoline sales at self-service pumps is an ugly one for marketers, but it isn't the worst possible scenario. As leaded fuel's market share dwindles (an inevitable event, as older lead-burning vehicles are replaced by newer models), it becomes politically easier for Congress or EPA to start thinking about a flat ban on leaded fuels.

Conservative forecasters say that won't happen this decade. There are indications, however, it may happen much sooner. Just a few months ago, District of Columbia Appeals Court Judge Patricia Wald told EPA officials she, for one, could see ample legal justification for EPA to ban leaded gasoline completely.

Another casualty may the 8¢ gal. price advantage leaded gasoline enjoys over unleaded. It would take an act of Congress, but it isn't out of the question. During a round of hearings late last year, lawmakers took refiners over the price difference between leaded gasoline and unleaded. Said one: "The main reason people are switching fuels and tampering with air pollution equipment is because leaded gas is cheaper. As a matter of environmental policy, it shouldn't be."

—Thomas Goldsmith

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

JUNE	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.261	$1.197	$1.277	$1.429
Regions:				
Northeast	1.258	1.194	1.261	NA
North Central	1.271	1.225	1.290	NA
South	1.232	1.164	1.248	NA
West	1.287	1.206	1.312	1.432

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	7/29/83	7/30/82
Gasoline (total)	226,810	226,613
Gasoline (unleaded*)	89,950	92,221
Kerosine **	33,860	35,625
Distillates	128,464	145,635
Residual	48,581	56,250

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

NPN

NATIONAL PETROLEUM NEWS SEPTEMBER 1983

Swarming After the Overcharge Billions: Will Jobbers Come Up With Their Share?

Momentum continues to build among marketers, refiners and myriad other parties who are chasing after anywhere from $6- to $10-billion in refunds stemming from crude and refined product overcharge cases.

Representatives for dealers, jobbers, refiners, end-users, consumer groups, state governments and even the federal government itself are clamoring in the courts, badgering bureaucracies and lobbying legislators in an effort to recover a portion of the settlement money that arose from violations of federal price controls between 1973 and 1981.

Last month, for instance, lawyers retained by Getty jobbers led a charge down Pennsylvania Avenue toward the Department of Energy to convince it to spring loose some $25-million just gathering interest on earlier settlements between Getty and the government.

A small but ornate courtroom in Wichita, Kan. last June was literally packed with lawyers and their clients contesting for their share of more than $1-billion paid by 21 oil companies found to have violated price regulations.

Such scenes will be repeated in different courtrooms quite often during the next several months, and jobbers particularly will be sweating at the palms for their share of this pot of gold. In fact, the list of jobbers signing on legal counsel to assist in their quest is growing, according to Bassman & Mitchell, the Washington law firm representing National Oil Jobbers Council (NOJC) and about one thousand individual marketers.

But while the potential rewards are enormously high, the competition is stiff and the lengthy game is grueling. So, what chances does a jobber have of getting his share?

"First of all, there's some question of the amount that's at stake because we still haven't really identified all the pots yet," says law partner Doug Mitchell. (See accompanying chart.) "Still, there has been suprising progress. And, if jobbers do get involved, the payoff could be spectacular."

Much of the settlement money may end up in the Federal Treasury or be divided among the states. Last December, Sen. John Warner (R-Va.) nearly put jobbers' chances out of reach when he sponsored a bill that automatically would have channeled the refund pot to the states. (As it turned out, the states did receive $200-million of the $280-million on hand at that time.) But the legislation was amended, effectively opening the door for a free-for-all.

An exact refunds status report is very difficult to come by. But here are some of the more important developments affecting jobbers in recent months:

—Some 1,300 Amoco jobbers last Christmas Eve were allowed to receive more than $5-million, based on a notion that they were *presumed* to be injured by overcharges, rather than having to prove injury [NPN—Feb. '83, p28].

—Last February, four jobber groups were granted the right to participate in DOE's first real effort to divvy up the crude oil pie. And, later that month, DOE's Office of Special Counsel abandoned the position that all the money should go to the states, favoring "identifiable purchasers" including jobbers. (That important development in early August was still subject to court approval.)

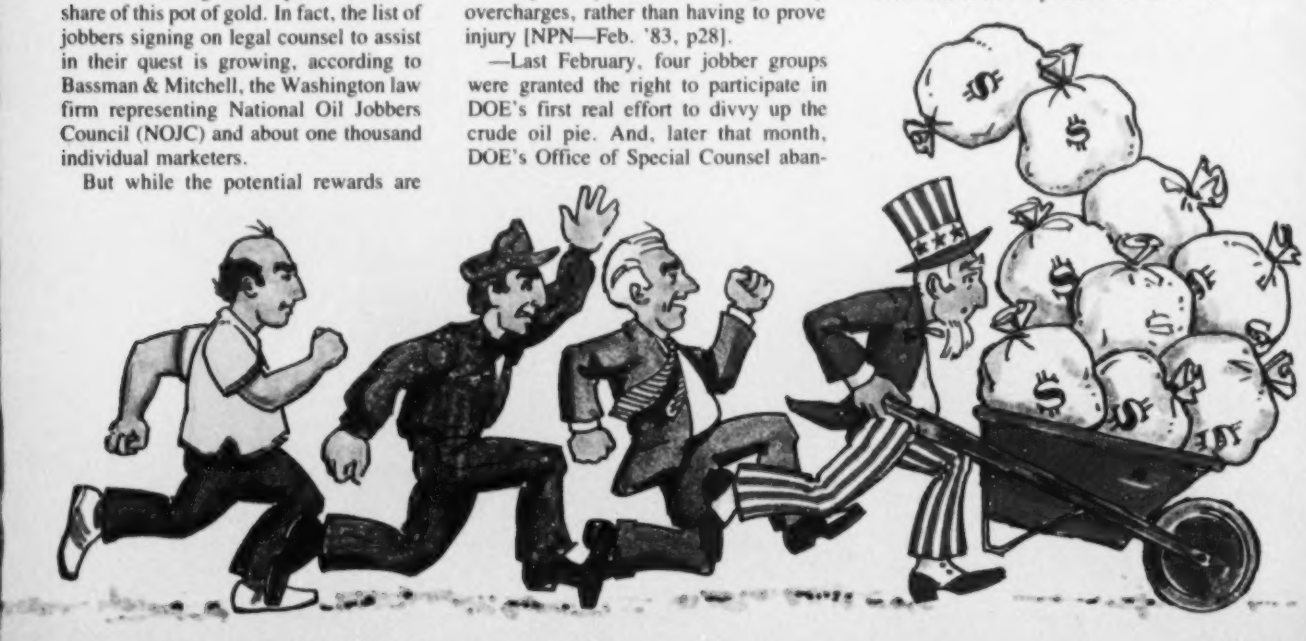
—In May, NOJC and other jobbers represented by Bassman & Mitchell were allowed to join in an appeal of an earlier court decision to send $1.6-billion of Exxon money to the states [NPN—June '83, p12]. Shortly thereafter, the same door was opened to jobbers under a Kansas case involving $1.2-billion in refunds.

—In June, the General Accounting Office came to the aid of jobbers with its study that suggested DOE ought to identify purchasers—a position subsequently reenforced by a House committee [NPN—July '83, p31].

—Lastly, the federal government itself has stated that it will appeal the Exxon decision, leading some industry observers to believe DOE will seek refund proceedings on all of the big cases.

Pursuing Violations and Splitting Up the Pot

Each time the government scores a victory in prosecuting price violations, it is adding to a pot that is worth *at least* $6-billion. Sources estimate that the roughly $1.5-billion held by DOE in escrow ac-



counts alone earns $500,000 every day.

"I'm used to covering this crazy town," says *NPN* Washington correspondent Tom Goldsmith, "but when I look at all the money that's at stake in these cases, it's really mind-boggling."

The crude oil segment of the refund pie is by far the largest. That's because price distinctions between controlled and decontrolled crude oil at some points approached $20 bbl., (as opposed to the fixed-penny margins on finished product). In fact, the three largest crude oil cases alone—*Exxon, Texaco,* and *Energy Reserves*—could contribute more than $4-billion to the refund pot. [See chart.]

The most advanced of the lawsuits is *Energy Reserves*. There, the Supreme Court already has ruled against the crude producers. Now, the district court must decide who gets the money. In the *Exxon* case, the U.S. Court of Appeals probably will not hear legal arguments on whether the company must surrender its staggering $1.6-billion judgement until January, says lawyer Mitchell. In early August, the Texaco case had not yet been heard by the District Court.

One of the ironies about the emergence of these colossal cases is that they are coming up at all, says one insider. "DOE had not been aggressive in going after these cases in the past," says this source. "The main reason they're coming up is that a few of the major oil companies *thought* they could win them. But now, they aren't."

Besides the really big cases, there are numerous medium- and small-sized ones. (The Getty case mentioned earlier is considered "medium potatoes," for instance.)

One smaller case before DOE's Office of Hearings and Appeals (OHA), *Alkek/Adams*, involves distribution of $65-million now held by DOE in an escrow account. In that important case, OHA permitted Amoco, Conoco, Union and Gulf jobbers to intervene and argue that they have a legitimate claim on the money, even though none of them bought crude or refined product from those particular producers, explains Mitchell.

Many of the smaller, finished product settlements already have led to marketer refunds. The largest one being a $100-million settlement with Amoco in 1979. Other million-dollar-plus cases where jobbers benefited involve Ashland, Coastal, Vickers, Tenneco and Charter.

The Best-Laid Plans . . .

Like any lucrative form of competition, however, overcharge settlements draw players "like bees to a honey pot," notes the judge in the Wichita, Kan., case. And, each party from the federal government to the end-user has adopted a strategy or two to garner its share of the pie.

—Federal government: Originally, it hoped to put all refund money in the U.S. Treasury, arguing the petroleum distribution system was too complex to divvy up spoils. But that position eroded to where OHA seems ready to hear refund proceedings in nearly every case, only claiming the leftovers for government coffers.

—State governments: Legal representatives there say individual refund recipients can't be identified and that all overcharges were passed through ultimately to the consumer anyway. So, since the states constitutionally represent the people more than does the federal government, overcharge settlements should go to the state level, say state proponents.

Ingredients in the Pot o' Billions:*

Settlements that Could Involve Refunds:#

Allied Materials Corp. & Excel Corp. ($850,000)
Aminoil ($16.5-million)
Basin (?)
Bayou State Oil ($1-million)
Beacon ($5-million)
Boron ($5-million)
BP ($5-million)
Champlin ($7.1-million)
Chevron ($47-million)
Crystal ($200,000)
Delta ($7.9-million)
Earth Resources ($7.9-million)
Evangeline ($190,000)
Fletcher ($2.8-million)
Gary ($600,000)
Golden Eagle ($81,000)
Gulf ($42-million)
Gulf States Oil ($700,000)
Hess (?)
Husky ($2-million)
Ida Gasoline ($1-million)
Kenco Petroleum Marketers ($29.7-million)
Kenco Refining Co. ($50,000)
Kendall ($4.5-million)
La Gloria ($600,000)
Lakeside ($200,000)
Little America ($2.2-million)
MacMillan Ring-Free ($1.55-million)
Nevada Refining ($137,600)
Newhall (?)
Oxnard ($790,000)
Pasco ($2.2-million)
Pride ($600,000)
Quaker State ($4.8-million)
Sinclair ($2.2-million)
Sohio ($5-million)
Somerset (?)
Southern Union Refining ($220,000)
Sunoco ($29.7-million)
Texas Eastern ($600,000)
USA Petroleum ($1.75-million)
Union Texas ($1.9-million)
United Refining (?)
Witco ($4.5-million)

***Distributions pending at DOE's Office of Hearings and Appeals in early August: Conoco, Apco and Onco.**
#All dollar amounts are estimates, due to the complex and often redundant nature of DOE overcharge allegations.

Finished Product Cases in Litigation:

(Amounts are estimates based on DOE's incomplete public files. Some of these companies may be completely innocent of the alleged violations.)

Agway ($50-million)
Apex ($300-million)
Arco ($100-million+)
Asamera ($16-million)
Bi-Petro ($4.4-million)
Clark ($300-million)
Crown ($34-million)
Exxon ($390-million)
Gulf ($35-million)
Hudson ($25-million)
La Jet ($8-9-million)
Marathon ($350-million)
Mobil ($77-million)
Murphy ($74-million)
Pester ($4.7-million)
Placid ($6.7-million)
Powerine ($20-million)
Rock Island ($5.4-million)
San Joaquin ($4.4-million)
Shell ($300-million+)
Tesoro ($13-million)
Texaco ($400-million)
Total ($23.2-million)
Winston ($1.7-million)

Already Refunded to the States:

Boron ($10-million)
BP ($10-million)
Chevron ($25-million)
Sohio ($10-million)
Time Oil ($860,000)

Other Refunds Already Made:#

(An ✻ indicates a small chance that jobbers could still be eligible.)

Amoco✻ ($102-million)
Ashland ($10-million)
Billups Western Petroleum ($3.2-million)
Century Refining ($280,000)
Charter✻ ($3.2-million)
Citgo ($10-million)
Coastal ($5-million)
Corco ($10-million)
Derby ($5-million)
Diamond Shamrock ($65,000)
Edgington ($2-million)
Farmland ($1-million)
Fina ($14-million *distributed*)
Hess ($35-million)
Kerr-McGee ($6.6-million)
Kern County Refining✻ ($3.2-million)
Koch ($4-million)
La Gloria ($6-million)
OKC✻ ($4.75-million)
Panhandle ($280,000)
Pennzoil✻ ($3-million)
Phillips ($3-million)
Southern Stores✻ ($3.2-million)
Super Test Oil & Gas✻ ($3.2-million)
Tenneco ($5-million)
Tosco ($4-million)
Union ($8-million)
Vickers ($2.85-million)
Wood River ($4-million)

✻Distributions pending at DOE's Office of Hearings and Appeals in early August: Conoco, Apco and Onco.
#All dollar amounts are estimates, due to the complex and often redundant nature of DOE overcharge allegations.

—Major refiners: Many argue that since they bought the crude from themselves in most cases and market conditions didn't permit them to pass on overcharges to customers, they should receive refund money.

—Small refiners: Since the entitlements program averaged crude oil overcharges, and they too were forced by market conditions to absorb the overcharges, they ought to receive all the money in the pot.

—Dealers: Some say refiners and wholesalers passed through all their costs to the dealer; others say they were hit by overcharges at least as hard as any other tier of the distribution chain.

—Jobbers: Like the more moderate dealer position, jobbers argue that each level of distribution chain bore at least *some* of the cost of overcharges, including consumers and refiners.

That view runs parallel with OHA's "average" level of injury theory as applied in the Amoco refund proceeding, says Bassman & Mitchell's Bob Bassman. "The positions of many of the parties—that they are sole victims of the overcharges—just does not square with the conditions in the petroleum market during the '70s," he says.

"So, we hope to get the courts to give the money to OHA, so the jobbers have a chance to convince OHA that they are entitled to a portion of the refunds," he says.

It is difficult to say which cases will be resolved (in *anyone's* favor) the fastest. But since the federal government seems to lean toward seeking to refer funds to OHA—as jobbers seem to favor—refunds from the *Energy Reserves* case, the *Alkek/Adams* case and perhaps others could soon find themselves on their way into different pockets, according to Bassman & Mitchell.

"Jobbers' skepticism over receiving any portion of the amount at the outset of this refund race stalled early efforts," says Mitchell. But participation has grown to more than 1,000 jobber clients for his firm, he says, and the jobbers' chances now seem "almost even." NPN

SSDA Would Cut Vapors With Filler Neck Seals

The Service Station Dealers of America (SSDA) has asked Congress to require automakers to put special seals on filler necks of auto fuel tanks to prevent station attendants and motorists from inhaling gasoline vapors.

Citing a recent warning issued by the American Petroleum Institute (API) that gasoline vapors may cause kidney cancer in rats, SSDA executive director Vic Rasheed said the $10-$15 donut seals would be welcomed by motorists. The seals would make the on-board vapor recovery systems in most automobiles today a "complete, self-contained vapor recovery system," says Rasheed.

The SSDA exec also pointed out that such a system, if adopted, would eliminate the need for the stage II vapor recovery nozzles required by federal regulations in some jurisdictions. Rasheed complained the nozzles are heavy, difficult to use and can cause pump malfunctions. The on-board system, he added, would be used nationwide, while the nozzle system so far applies only to large-volume stations in heavily populated areas. NPN

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Rosier Profits for Most Majors in Second Quarter

Except for Arco, Gulf and Union, all of the top oil companies fared well in their second-quarter earnings statements.

Exxon, Mobil, Texaco, Standard of Indiana and Standard of California led the way. But Standard of Indiana and Texaco, while up in the second quarter, couldn't quite offset their negative first quarters and wound up with minus signs for their six months of effort.

Exxon, Mobil, Texaco and Socal are Aramco partners and heavy buyers of Saudi Arabian crude. Their profits were helped by the fact that Saudi Arabia lowered its crude price to $29 bbl., matching the OPEC level and eliminating the $5 disadvantage the American companies had to live with previously.

(Millions of dollars)

Company	2nd qtr. 1983	2nd qtr. 1982	% Chng.	1st half 1983	1st half 1982	% Chng.
Exxon	$1,075.0	$849.0	26.6%	$2,135.0	$1,688.0	26.5%
Mobil	402.0	287.0	40.1	652.0	531.0	22.8
Texaco	327.0	305.0	7.2	646.0	672.0	(3.9)
Stand. of Ind.	426.0	382.0	11.5	825.0	852.0	(3.2)
Stand. of Calif.	368.0	263.0	39.9	678.0	493.0	37.5
Atlantic Rich.	393.4	409.8	(4.0)	723.7	795.2	(9.0)
Shell	390.0	380.0	2.6	636.0	724.0	(12.2)
Gulf	223.0	227.0	(1.8)	405.0	515.0	(21.4)
Tenneco	205.0	204.0	0.5	315.0	333.0	(5.4)
Stand. of Ohio	476.0	473.0	0.6	753.0	928.0	(18.9)
Phillips	169.0	146.0	15.8	298.0	338.0	(11.8)
Sun	135.0	110.0	22.7	225.0	234.0	(3.8)
Getty	(86.1)	156.9	—	71.7	336.6	(78.7)
Union	139.4	197.6	(29.5)	267.7	366.1	(26.9)
Amerada Hess	68.2	61.1	11.6	73.2	44.9	63.0
Ashland (a)	37.1	69.1	(46.3)	51.8	105.0	(50.7)
Kerr-McGee	37.8	50.2	(24.7)	61.5	79.4	(22.5)
Diamond Sham.	29.5	31.9	(7.5)	34.2	96.6	(64.6)
Murphy	40.4	41.7	(3.1)	68.2	35.1	94.3
American Petrofina	8.6	10.9	(21.1)	8.9	26.9	(66.9)
Crown Central	3.9	(2.9)	—	(6.6)	(5.9)	—
Commonwealth Ref.	(3.6)	(2.6)	—	(3.8)	(15.3)	—
Quaker State	12.0	14.0	(14.3)	18.2	19.8	(8.0)
Southland Corp.	34.0	35.2	(3.4)	41.7	44.7	(6.7)
Pennzoil	29.3	44.8	(34.6)	70.6	84.7	(16.6)
Total Petro.	(16.5)	(5.4)	—	(53.6)	0.8	—

(a) Third quarter and nine months; fiscal year ends 9/30.

Carwash Association Backs Retail Divorcement

The push for federal divorcement legislation now has the nation's carwash industry behind it.

At its summer convention in Chicago, the 3000-member International Carwash Council adopted a resolution to organize a lobbying effort supporting the two divorcement bills pending in Congress. The group appointed a legislative committee on divorcement, but has not yet decided how much it would spend in the effort.

An association spokesman says that major oil company giveaways are the group's primary concern. He says widespread offers of a free wash with a fill-up are driving "mom and pop" outlets out of business.

"The majors are able to adjust prices for their gasoline because they own and operate the stations," says Bruce Milen, association president, "Even selling gasoline, a carwash operator could not survive. I would have to raise my gasoline prices to offer a free carwash."

Milen estimates that there are about 22,000 carwash operators nationwide, most of them independent dealers operating a single outlet. He says about 60% of these operators sell gasoline.

Meanwhile, Vic Rasheed, executive director of the Service Station Dealers of America, says this new ally demonstrates that support for divorcement is growing.

Rasheed says his organization continues to encourage support from jobbers for the two Congressional bills, although he says the National Oil Jobbers Council has declined to take a position on the measures.

Rasheed says that one possibility for a dealer-jobber compromise is on the bills' open supply provisions. He explains his organization is studying a 50% open supply provision adopted by dealers in Australia, which allows dealers to purchase half of their product from alternate suppliers if they feel their main supplier isn't offering competitive prices. NPN

Gas Decontrol Moving Through Senate, But Bogged Down in House

The full Senate will get a chance this month to go on record for or against proposals to lift price controls on natural gas. After weeks of haggling, the Senate Energy Committee in late July voted to send the controversial decontrol proposal to the Senate floor without a recommendation.

The bill that will come before the Senate is a compromise effort that lifts all limits on natural gas prices, but at a slower pace and with more consumer safeguards than the White House originally sought.

Energy Secretary Donald Hodel called the compromise a "step in the right direction," and urged the Senate to approve it, despite discrepancies with the White House original. The bill faces a stiff floor battle, however, and must await House action on similar legislation. The two bills almost certainly would wind up in a conference committee for final drafting.

The Senate measure lifts controls on gas prices over a three-year period and includes "old" gas (discovered before April 1977) as well as "new" gas. To help keep prices down, the measure also gives large gas customers a chance to partly escape from long-term "take or pay" contracts that force them to purchase higher-priced gas in lieu of spot market supplies that for now are considerably lower. Under the bill, buyers would have to take only half the contract gas the first year the bill is in effect, 60% the second and 70% the third.

The "no recommendation" came on an 11-8 vote in the energy committee, which spent a record 31 working days debating its merits and making changes.

When it goes to the Senate floor, the bill faces still more debate, including the threat of a filibuster by Sen. Howard Metzenbaum (D-Ohio), an ardent opponent of decontrol.

Meanwhile, a House Energy subcommittee is bogged down trying to draft a companion bill to the Senate measure. House lawmakers have been unable to agree on the decontrol of pre-1977 gas. The old gas is relatively inexpensive to produce, and opponents of decontrol say allowing its sale at market prices would create a financial windfall for producers, mainly the major oil companies.

An Energy Department study publicized by *The Washington Post* during the Senate committee's deliberations said the nation's 16 largest oil companies would get from $1.8-billion to $4.2-billion in revenues the first year after old gas controls are lifted. The biggest winner, according to DOE figures, would be Gulf Oil, which would reap an extra $645-million to $869-million, depending on the level at which prices stabilize. NPN

Fleet Customers Bump Up Propane Demand

Motorists aren't waiting in line for it at the pump, but industry sources say LPG seems to be making a slight comeback as a motor fuel.

Some jobbers report successful sales to municipal and commercial fleet operations. In Iowa, for example, one jobber says he has won over two school districts to propane, selling about 50,000 gal. to the districts during the average school year. The jobber says he reaps about 7¢ gal. more in tankwagon profits on propane than he does on gasoline. And, the propane he sells is about a dime cheaper than the gasoline sold in nearby towns.

A survey of more than 1,600 commercial fleets by Runzheimer and Co., Northbrook, Ill., showed 11% of the firms switched from gasoline to alternative fuels, and the fleet market is where industry sources say propane has its greatest growth potential.

Kentucky, for example, is experimenting with a 26-vehicle LPG car pool for state employees and is considering converting more of the state's fleet for LPG use. The state offers a sales tax break on vehicles with state-approved carburetior systems.

The $1,000 to $1,500 price of converting a vehicle for propane use, as well as fears of its flammability, however, have kept propane from widespread road use, jobbers say.

Interest in propane as a motor fuel rose with gasoline prices in 1981, then dropped when the oil glut pushed gasoline prices back down. The National LP-Gas Assn. (NLPGA) says LPG carburetor sales have tapered off over the past couple of years, and Ford Motor Co. reports that orders for propane-powered cars have plummeted from 1,000 in 1982 to 200 in 1983. This year, the company opened up sales of the cars to retail customers. (The vehicles formerly were offered only to commercial fleet operators.)

"We feel there is a market for this kind of vehicle, although not a large one by any means," says a Ford spokesman. "We think there are some retail customers who would want a propane-powered car, such as farmers and others who live near propane outlets."

While gasoline consumption dropped, LPG motor fuel consumption increased steadily over the past several years, jumping 15% between 1981 and 1982 (the most recent figures available), according to Department of Energy statistics. And, some state tax and licensing figures seem to indicate the market is strengthening:

—In Michigan, for example, tax revenues from LPG motor fuel increased 20% in 1980, 51% in 1981 and 28% in 1982, while the number of licensed distributors remained stable.

—In Missouri, the number of service station dispensers has increased steadily over the past few years, more than tripling between 1979 and 1982.

—Iowa officials report a 24% increase in LPG motor fuel tax revenues between 1981 and 1982 and a surge of about 600 new retail dispensers this year out of 2500 total dispensers in the state, although some of the increase may be the result of better licensing procedures.

State and potential federal tax incentives also may give the fuel a boost in coming years. Eight states offer tax breaks on propane motor fuel, and the NLPGA is lobbying Congress for either a lower tax rate for propane or a flat annual fee for propane-powered vehicles.

"Our position is that there are fewer BTUs in propane than in gasoline, and it should be taxed at a lower rate," says an association spokesman, "We are preparing a package which would correct this inequity."

Economists predict a healthy, though not robust, propane market in the 1990s.

"There was a big push for propane motor fuel during the past decade, as well as considerable growth, and the industry got excited about it," says Bruce Netschert of National Economic Research Associates, Inc., in Washington, D.C. Netschert says in the last year or so, many dealers' spirits plummeted with gasoline prices.

Netschert, however, believes in the long-run, LP-gas should keep its price advantage over gasoline and diesel. **NPN**

Propane's Consumption Figures Grow. . .

1982	643,946,000 gal.
1981	550,721,000 gal.
1980	508,011,000 gal.
1979	443,732,000 gal.

While Carburetor Conversions Decline. . .

	No. of Carburetor Sales
1982	256,944
1981	354,507
1980	390,975
1979	249,730
1978	139,364
1977	135,685
1976	123,557

Source: Department of Energy

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DOE Updates Its Shuttered Refinery Count

The downward shift in product demand and economic pressures favoring more sophisticated facilities brought 63 refineries permanently to their knees last year, according to updated government statistics.

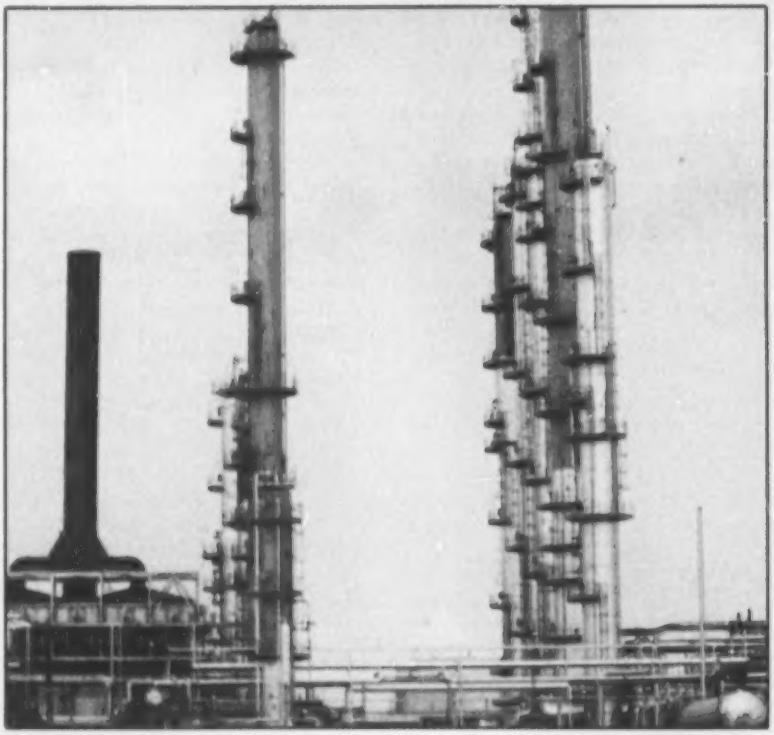
According to a thorough accounting of petroleum supply by the Energy Department, more than 1.2-million b/d of operating capacity was shut down in the 12-month period ending last Dec. 31. The number of closures represents a nearly three-fold increase over the rate in 1981, when 23 refineries shut their doors [NPN—May '83, p32].

The report, released in July, includes a half-dozen closed facilities—totaling more than 62,000 b/d operating capacity—which were not accounted for in a DOE survey released early last spring.

On January 1 of this year, there were 253 operable refineries in the U.S. with almost 16.9-million b/d of operating capacity, DOE figures show. This compares to the peak capacity of recent years of more than 18-million b/d registered in January 1981.

"Smaller, less complex refineries which were unable to produce additional, light products from less expensive, heavy, high-sulfur crude oil were at an economic disadvantage," notes the DOE report. "In addition, some refiners changed their marketing and distribution networks in recognition of these changing conditions, and closed their least profitable facilities while expanding others to be able to produce more marketable products (meaning lighter products.)"

Some signs of a slightly better supply/demand balance, however, are reflected in refinery utilization rates for first-quarter this year compared to that for 1982. Rates for the first three months of 1983 bested year-ago percentage figures by roughly 0.5%, with April of this year at 69.3% utilization versus 66.2% the previous year. (The average monthly rate for all of 1982 was 69.85%.) NPN



January marked roughly 16.9-million b/d, capacity, versus 18-million b/d in early 1981.

District/refinery	Location	Operating Capacity (b/d)	Years in Operation
PAD I			
ELK Refining Co., div. of Pennzoil Co. Inc.	Falling Rock, W. Va.	5,600	25+
PAD II			
Flying J Inc.	Williston, N.D.	4,250	25+
Okmulgee Refining Co.	Okmulgee, Okla.	25,000	25+
PAD III			
Brio Refining Inc.	Friendswood, Texas	12,500	4
Evangeline Refining Co.	Jennings, La.	4,500	25+
PAD V			
Coastal Petroleum Co.	Paloma, Calif.	10,200	3
Total:		62,050	

Petroleum Marketers' Profit Returns Halved During Past Three Years

Both gasoline and heating oil marketers have seen their profit margins and returns on assets and equities cut nearly in half or more since 1979-80, according to a ninth annual study of "Financial Characteristics of Petroleum Marketers" by Philip L. Cooley.

Cooley, a professor of finance at the University of South Carolina, performed the study under the sponsorship of the Petroleum Marketers Education Foundation.

Based on responses from over 300 marketers, Cooley found that by most financial measurements, jobbers remain in a four-year slide that began in late 1979.

This is how he finds the average gasoline marketer has done over the four years in three categories:

	1982-83 (%)	1979-80 (%)
Profit Margin	.55	1.24
Return on Assets	4.3	7.7
Return on Equity	10.7	19.9

The average heating oil jobber has even greater percentage losses, as follows:

	1982-83 (%)	1979-80 (%)
Profit Margin	.63	2.20
Return on Assets	3.5	9.3
Return on Equity	8.8	24.9

Cooley says the .55% average profit margin in 1982-83 means that a jobber realizes about .55¢ per dollar of sales. This decline has been partially offset by increases in sales per dollar of assets. And, the average jobber debt level has remained about the same over the past two years, he found. NPN

Tally of State Tax Hikes Finds Dip in Flex Formula

A near-record 18 states increased their motor fuel taxes this year, the highest number of state motor fuel tax hikes since 1981's 22-state boost, according to the Highway Users Federation.

A federation spokeswoman says the round of tax hikes is an attempt to match federal highway aid and repair local roads and bridges. The federal government funds only about a quarter of all the road mileage in the U.S., and the states must match between 10% and 25% of the aid they receive.

1983 Motor Fuel Tax Hikes*

State	Gasoline	Diesel	Increase
Colorado	12¢	13¢	3¢ gas/4¢ diesel
Connecticut	14	14	3¢
Florida	9.7	9.7	1.7¢
Idaho	14.5	14.5	2¢
Illinois	11	13.5	3.5¢ gas/6¢ diesel
Kansas	10	12	2¢
Maine	14	14	5¢
Massachusetts	11	11	1.1¢
Minnesota	16	16	3¢
Montana	15	17	6¢
North Dakota	13	13	5¢
Oregon	8	8	1¢**
Pennsylvania	12	12	1¢
Rhode Island	13	13	2¢
Vermont	13	14	2¢ gas/gasohol
Washington	16	16	4¢
West Virginia	15.35	15.35	4.85¢
Wisconsin	13	13	2¢

***Some of these states passed additional tax increases for upcoming years.**
****Not in effect until January, 1984. Increase is not reflected in the tax figures.**

In most cases, the state's motor fuel tax will vary with the price of gasoline. Some states may set a minimum per gallon tax.

"When the price of motor fuel suddenly started dropping in the states that didn't have a minimum tax rate, they didn't get the income they expected," says Catherine Yoe, who analyzes and compiles the federation's statistics.

Some states apply a percentage tax to gasoline, calling it a sales tax. Other states peg the tax rate to inflation. Yoe says many of these states are finding these more complex variable tax structures difficult to adminsister.

"Nearly every state that has passed a variable rate tax has adjusted it within the last year or so," says Yoe, "The variable tax has been tarnished because it hasn't worked. Now, if the states feel they need more money for next year, they will pass an increase for this year and also pass another increase that will go into effect the following year."

Nine states have passed multiple motor fuel tax hikes over the past two years. Yoe says motor fuel taxes increased this year in seven states and the District of Columbia as a result of legislation passed in previous sessions.

For oil jobbers, the federation has some good news and some bad news. The good news is that the trend toward variable rate taxes (which jobbers generally fight) is on the decline. The bad news is that state legislatures are approving tax increases for several years at once.

Twelve states have variable rate taxes, or taxes which can rise or fall without legislative action. Washington was the first state to pass a variable rate tax in 1977, but repealed the formula this year because it failed to generate enough revenue for the state's transportation programs. NPN

No Uniform Rules On Tire Grading, DOT Tells Challengers

The Transportation Department (DOT) has flatly turned down a pair of requests that it drop plans to eliminate federal uniform tire grading regulations.

Earlier this year, DOT suspended the mandatory tire grading regulations, saying they were unreliable and shouldn't be used by consumers to judge the relative value of passenger car tires. While the suspension was in effect, DOT launched formal proceedings to determine whether the tests could be made more accurate or should be abandoned.

The petitions turned down by the agency last month were filed by the Center for Auto Safety, a consumer group, and by Uniroyal Tire Co., one of the few tire makers to support the grading regulations.

The DOT rules require tire manufacturers to display a tire quality rating determined by DOT tests. In theory, these were supposed to allow consumers to comparison shop for tires. But DOT said it found that the tests it used to rate the tires could not produce repeatable results, making the ratings of dubious value.

While it denied the two reconsideration petitions, DOT did agree to a third request, filed also by Uniroyal. The third petition suggests changes in test procedures which Uniroyal says will make them more reliable and produce repeatable results. Among the suggestions: more frequent tire rotations and swapping tires among several test vehicles, to ensure that vehicle differences don't affect test results.

A final ruling from DOT on the fate of the tire ratings probably will come early next year. The department could decide to do away with the ratings or keep them with improved testing procedures. NPN

Congress Might Spare Small Business in Search for More Tax Money

Despite a self-imposed requirement to come up with $12-billion in net tax increases for next year, Congress seems quite willing to give small business a package of lucrative tax breaks over the next few years.

With very little visible opposition, both House and Senate lawmakers have begun work on a package of tax law changes which backers say will help small firms achieve the financial stability they desperately need.

The Senate version of the bill, dubbed the "Small Business Capital Formation Tax Act" would cut small business income taxes and change tax laws to encourage investments in smaller companies. The measure also would make it more attractive for owners of small businesses to sell them intact, rather than liquidate them upon retirement.

The House version does virtually the same, although the cut-off points are slightly different. Both are based at least partly on the recommendations of a blue-ribbon panel set up by Congress and headed by officials of the Securities and Exchange Commission.

The measures could emerge from the House and Senate Small Business Committees and be headed for floor votes in the next few weeks, according to Congressional staffers.

Should they be approved, the bills would:

—Reduce corporate tax liabilities for all firms making less than $200,000 per year. The rates would be 12% for firms in the $25,000 to $50,000 per year range, 20% in the $50,000 to $100,000 range, 30% in the $100,000 to $150,000 range, and 40% in the $150,000 to $200,000 range;

—Increase the capital gains deduction for investments in small businesses held at least five years. The current deduction is 60%, the bills would make that 80%;

—Permit small firms (those with less than $1.5-million in gross receipts for three consecutive tax years) to use cash receipts methods of accounting;

—Create a new 10% tax credit for investments in small businesses;

—Permit taxpayers to defer capital gains taxes from the sale of a small business by reinvesting the gains in another small company within one year. NPN

Fuel Oil Outlook:

Full-Blown Profits Or Melting Demand?

There is a note of cautious optimism in the air as the fuel oil industry heads into the 1983-84 heating season.

Given any kind of a meaningful break in the weather—in this case, not the warm sunshine of summer but the frigid blasts of winter, accompanied by icicles, frequent snow storms and a piling up of degree days—the industry should be in for happier times.

Suppliers and jobber/dealers alike agree that absolutely anything would be better than last winter, which wound up as the warmest in three decades. Another season like that would stretch most marketers thin and would be total disaster for many of the smaller companies which have to put it all together between Sept. 30 and April 30 to stay alive the rest of the year.

There is a note of concern in the moderately optimistic outlook too.

An abnormal run of very cold weather for a prolonged period could be equally upsetting. It could cause supply problems in many areas—spot shortages and cold consumers—until the refiners could rectify the situation with stepped-up runs to meet an unexpectedly high demand.

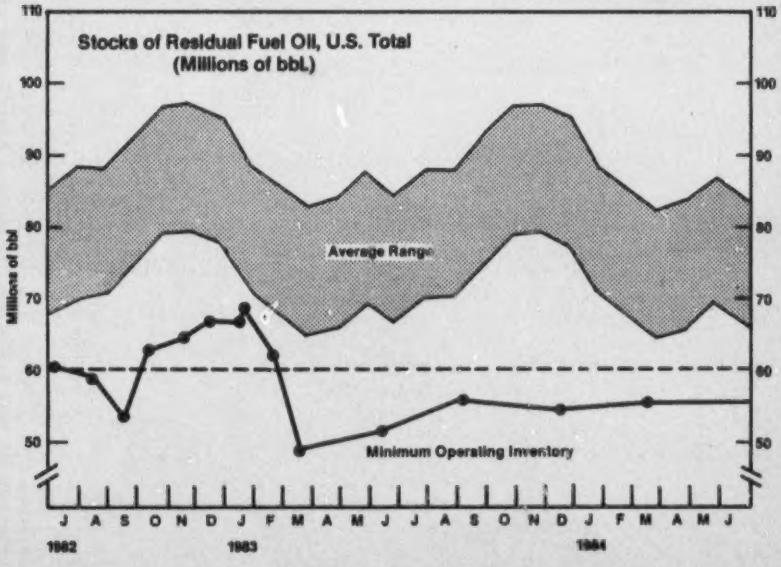
This is because the fuel oil industry is entering the fall/winter heating season like a high-wire artist balancing himself with a heavy pole on a taut but nevertheless swaying wire.

Primary supplies of both distillate and residual fuel oils are relatively low for this time of the year. In fact, only a couple of years ago, there was much hand-wringing and wailing by consumerists and government people who felt that primary supplies of distillate alone could not be less than 200-million bbl. by Sept. 30 to meet anticipated needs. Today, distillate inventories are in the neighborhood of 170-million bbl.

But demand is down too, especially for home-heating oil. This is a reflection of consumer conservation and a gradual shrinkage of the residential fuel oil market. In New England alone, says New England Fuel Institute president Charles Burkhardt, volume losses have been in the neighborhood of 25% in recent years—about 1-billion gal. of the 4.3-billion gal. sold in 1976-77. New England, significantly, accounts for about 75% of the heating oil consumed in the U.S. each year.

Here's what government forecasters say lies ahead for heating oil jobbers and dealers this winter, assuming that the weather will be normal, that the economic recovery will continue, and that crude oil prices will be stable:

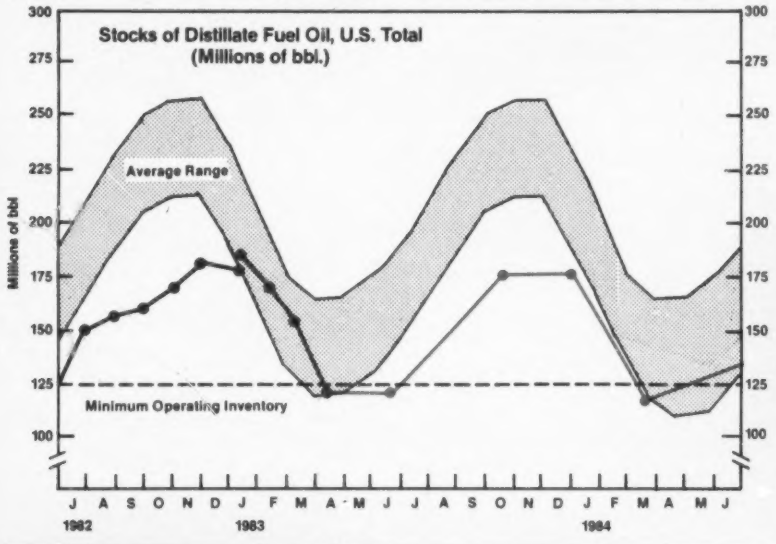
- Supplies: Generally adequate on the national level with abundant reserves of crude oil and refining facilities to churn out more, if needed. Secondary supplies—those in the tanks of jobbers and retailers—were low in the summer months but were being built up to normal levels as the heating season approached.
- Demand: Stronger in the fourth quarter of this year and the first quarter of 1984, stimulated more by the improving economy and on-highway diesel growth than by the needs of the heating oil segment. Distillate demand is projected to average 3.3-million b/d in the fourth quarter of '83 and 3.4-million b/d in the first three months of next year. Resid will be up



By J. Richard Shaner
East Coast Editor

too, in a modest turn-around of the slump it has been in.

• Prices: Fairly stable for distillate only. Probably in the $1.08 to $1.09 gal. range in the third and fourth quarters of this year and perhaps $1.10 to $1.12 gal. in the first and second quarters of 1984. (No projections are available on resid prices because most of these sales are in bulk, on contract, and quite variable.)



A Shrinking Pie: How the Fuel Oil Marketplace Has Changed in Recent Years

Distillate

	Thousands of Bbl.				Cents per gal.		
	Stocks As of 12/31	Product Imports (b/d)	Product Supplied	Residential Heating Oil Sales	Average Wholesale Price	Average Retail Price	Average Distributor Margin
1983	170,210	—	976,000	325,000	85.0¢	109.0¢	21.0¢
1982	178,600	93	976,280	324,912	97.4	119	20.2
1981	190,176	167	1,032,585	345,728	102.6	121	16.8
1980	205,132	139	1,046,090	393,112	82.2	98	15.8
1979	228,729	197	1,208,515	454,955	53.0	66	12.8
1978	216,463	173	1,252,680	533,069	38.7	49	11.0
1977	250,295	250	1,223,480	538,845	36.9	46	9.0
1976	185,986	146	1,143,545	543,898	32.6	41	8.0
1975	208,833	155	1,040,615	488,388	31.2	38	7.4
1970	195,271	148	779,275	521,135	N.A.	N.A.	N.A.

Residual

					Dollars per Bbl.		Average Indicated Margin
1983	54,290	—	587,650	62,500	$25.16	$28.05	$2.89
1982	66,200	758	618,675	65,871	26.55	29.08	2.53
1981	78,348	796	762,120	67,035	28.86	32.50	3.64
1980	90,344	920	915,420	98,034	23.14	26.09	2.95
1979	95,598	1,151	1,031,490	82,729	17.66	18.67	1.01
1978	90,194	1,355	1,103,395	164,536	11.51	12.75	1.24
1977	89,933	1,359	1,120,915	168,279	11.96	12.33	1.27
1976	72,344	1,413	1,022,365	178,139	10.72	11.49	.77
1975	74,126	1,223	885,490	154,103	N.A.	N.A.	N.A.
1970	53,944	1,528	804,460	185,831	N.A.	N.A.	N.A.

Sources: Mostly Department of Energy weekly, monthly and annual reports, and especially the Short Term Energy Forecast issued in July; American Petroleum Institute data book; and some reconciliation estimates by *NPN*.

• Margins: No worse than in 1982, when they averaged 20.2¢ gal. Perhaps a mite better in the last quarter of '83 and the first half of '84. Weather and demand will be key factors in the first and second quarters of 1984. If demand goes up, prices should rise and margins could improve.

Many Faces of Fuel Oil

There are two or three different ways to look at the distillate and fuel oil industry in relating and comparing the statistics of the past, present and future.

Looking Ahead: What's in Store for Distillate And Residual

Distillate

	Closing Stocks Previous Year (Millions of bbl.)	First Quarter Primary Stocks 3/31 (Millions of bbl.)	First Quarter Product Supplied Avg. b/d	First Quarter Retail Price Avg. per gal.	Second Quarter Primary Stocks 6/30 (Millions of bbl.)	Second Quarter Product Supplied Avg. b/d	Second Quarter Retail Price Avg. per gal.	Third Quarter Primary Stocks 9/30 (Millions of bbl.)	Third Quarter Product Supplied Avg. b/d	Third Quarter Retail Price Avg. per gal.	Fourth Quarter Primary Stocks 12/31 (Millions of bbl.)	Fourth Quarter Product Supplied Avg. b/d	Fourth Quarter Retail Price Avg. per gal.
Looking Ahead													
1984	170.2	120.3	3.4	$1.10	127.3	2.7	$1.12	—	—	—	—	—	—
1983	178.6	118.7	2.8	1.10	112.0	2.5	1.09	170.0	2.3	$1.08	170.2	3.2	$1.09
Looking Back													
1982	190.2	126.3	3.2	1.19	123.7	2.6	1.15	161.2	2.3	1.16	178.6	2.7	1.20
1981	205.1	164.3	3.5	1.21	179.9	2.4	1.23	207.3	2.4	1.20	191.5	3.0	1.21
1980	228.7	177.9	3.5	.94	196.5	2.4	.98	232.4	2.3	.98	201.1	3.1	1.02
1979	216.5	112.3	4.4	.56	141.4	2.9	.65	220.4	2.7	.78	228.7	3.4	.84

Residual

Looking Ahead													
1984	54.3	55.0	2.0	—	55.2	1.8	—	—	—	—	—	—	—
1983	66.2	46.3	1.6	NA	48.6	1.4	—	55.3	1.6	—	54.3	1.7	—
Looking Back													
1982	78.3	58.1	2.1	NA	60.7	1.7	NA	61.8	1.5	NA	66.2	1.6	NA
1981	90.3	74.8	2.5	NA	69.4	1.9	NA	80.2	1.9	NA	78.0	2.0	NA
1980	95.6	88.3	3.0	NA	87.8	2.3	NA	87.9	2.3	NA	91.8	2.5	NA
1979	90.2	71.7	3.1	NA	79.8	2.5	NA	87.8	2.6	NA	95.6	2.8	NA

Sources: Mostly Department of Energy weekly, monthly, and annual reports, and especially the Short Term Energy Forecast issued in July; American Petroleum Institute data book; and some reconciliation estimates by *NPN*.

Heating Oil Marketing: A Different Game These Days

Bob Lynch, a veteran of the heating oil industry, says heating oil marketing is still a poker game of sorts, but the way it is being played now is significantly different from the past.

Lynch says it is time fuel oil marketers change their traditional approach to fall/winter stocks and become less dependent on their suppliers to take care of them.

Lynch currently is executive vice president of Empire State Petroleum Assn. A decade ago, before it was merged into the National Oil Jobbers Council, Lynch was the top executive of the old National Oil Fuel Institute, which was created in the early '60s to be the promotion and educational arm of fuel oil and repel the inroads of gas and electricity.

A one-time fuel oil marketer himself, he was, and still is, considered to be one of the industry's most knowledgeable experts in fuel oil's continuing battles with its utility competitors. He has some insights into the 1983-84 heating situation.

For many years, suppliers and buyers followed the annual ritual that developed around the highly seasonal nature of the heating oil business. From the refiner's point of view, the heating season generally ended around Feb. 1 because stocks would be sufficient for the March-April period and, at the same time, his attention had to be re-focused on the replenishment of gasoline inventories for the warm weather to come.

Refiners developed summer-fill programs to unburden themselves of excess fuel oil stocks. While marketers could hardly sell the stuff in the warm weather, they gladly cooperated because of a guaranteed price and deferred payment inducements.

This, says Lynch, set the stage for the poker game which ensued in September every year.

"Refiner suppliers would project a potential scarcity of fuel later in the year with attendant price increases to encourage marketers to take their liftings earlier," he says. "But marketers, with sufficient inventories to carry them through the first several months, were usually disdainful, gambling that a warm fall would force recission of the price increases."

President Carter's energy policy and spiraling interest rates and inflation made it increasingly impossible for most marketers to cope with high pre-season inventories. Too, refiners expanded their own storage facilities with the aim of realizing price appreciation, he says.

There has been a significant deviation in the past two years in the charting cycles the industry uses for inventories and projected demand.

Their underlying validity may be open to question because, for a period of several months, inventories fell below the so-called minimum operating levels, when runouts and shortages should have occurred—but didn't.

Since then, he notes, recent structural changes in demand patterns and logistic systems have altered the basic requirements for petroleum distribution, and projected needs may actually be overstated.

"As we prepare for the 1983-84 season, many suppliers will continue to key for a September start-up since retailers did not build up (summer) inventories of their own," says Lynch. "Marketers, on the other hand, know very well that consumer resistance to high oil prices is most easily expressed at the beginning and the end of the heating season.

"But marketers have another card in the poker game now—the hedging possibilities of the futures markets. So long as they don't let themselves get trapped in outright speculation, wherein they could lose their shirts, they can lock in supplies or prices down the road."

The net effect of all this, he says, is that the price impact, which used to be felt in September, is more likely now to be at the beginning of December.

Most data are compiled on an annual calendar basis, (i.e., from Jan. 1 through Dec. 31.) This often causes an unevenness in the totals because the highs and lows of the winter heating seasons, which start in one year and conclude in another, can affect the annualized totals materially.

This contrasts with the seasonal data of the heating oil industry which likes to use fall/winter/spring months as the basis of its calculations and comparisons. Technically, the heating season begins Sept. 1 and concludes May 30. But the number of degree days that are accumulated in September and May are generally on the low, low side, making these two months somewhat meaningless. Therefore, October through April are the months that count.

Another difficult aspect is that the hard data compiled by government and industry involves all uses of distillate and residual fuel oils. Where distillate is concerned, the annual statistics thus include diesel fuel for highway use, which already has a more significant share than heating oil, railroads, vessels, off-high diesel, etc., to cite a few. The same thing goes for diesel, where electric utilities consume more than space heating, and vessel bunkering also is high on the list of users [See related table page 67.]

As a rule of thumb, distillate for space heating represented about 33% of the total output in 1982 and is expected to run about the same in 1983. This is in sharp contrast to the 1977-78 period when the distillate percentage ran around 44%. Fuel oil's erosion, in fact, began in the 1977-78 period when the annual average of retail prices climbed from less than 50¢ gal. to more than $1.21 in 1981.

Residual fuel oil has been in a tailspin for several years. Total demand is down 48% since 1977 for all uses. Space heating usage is down even more drastically—roughly 62% in 1983 alone. Here again, it must be remembered that consumption declined as prices rose—almost tripling in the intervening years.

The Supply Outlook

Few energy experts and economists are willing to put themselves on record with a fuel oil forecast for the balance of 1983 and the first half of 1984.

The Department of Energy is now issuing short-term forecasts three or four times a year, however, and these give reasonably good pictures of the past, present and future. The only caveats, again, are that the data are on an *annual* basis and reflect *all* uses of distillate and resid, not just heating oils.

The July forecast said distillate consumption in 1983 would be about the same as in 1982, even though the first quarter of 1983 was depressed by the warm weather and a 10.4% shortfall in normal deliveries. Demand in the last half of 1983 and the first half of 1984 is expected to be up somewhat, more as a result of overall business stimulation than anything else. The forecast indicates consumption will run an average of 3.05-million b/d in the first half next year, an increase of 17% over the weather-depressed first half of this current calendar year.

Residual fuel oil consumption is expected to parallel that of distillate. In the doldrums for years and hurt by last winter's warmer weather, residual demand is expected to be stimulated by the economic recovery that's going on. In the first half of 1984, electric utility shipments are scheduled to increase 17% and non-utility consumption 20% over the comparable period of 1983.

Says the government about product availability: "While closing stocks were below the year-ago level, considerable re-

Regional Inventories: How They Rise and Fall During the Winter Heating Season

Because the populous New England and Middle Atlantic states account for most of the distillate and resid used for space heating during the winter months, it is only natural that their regional inventories are the highest in the land.

It must be remembered, however, that these stocks of fuel oil are for all uses—space heating, commercial, industrial, transportation and so on. As a rule of thumb, space heating accounts for about 35% of the fuel oil consumed in recent years—down considerably from the mid '70s when the ratio used to be around 45%.

Where distillate is concerned, on-highway diesel fuel is now taking a bigger cut of the total than that required for space heating.

	Distillate (millions of bbl.)			Residual (millions of bbl.)		
	Sept. 1	Jan. 1	May 1	Sept. 1	Jan. 1	May 1
1983-84						
East Coast	74.5	77.1	44.6	26.0	28.0	26.0
Midwest	47.4	46.9	38.8	5.3	5.6	5.7
Gulf	34.7	31.8	28.6	14.1	12.8	13.8
Rocky Mountains	3.2	2.2	3.0	0.4	0.5	0.5
West Coast	10.2	12.2	10.1	7.7	7.2	9.1
Total U.S.	170.0	170.2	125.1	53.5	54.1	55.1
1982-83						
East Coast	63.9	80.6	31.8	23.1	34.7	20.3
Midwest	45.5	47.0	33.3	5.5	5.2	3.4
Gulf	35.6	34.2	26.0	15.5	16.3	13.4
Rocky Mountains	3.5	4.0	2.8	0.4	0.6	0.5
West Coast	10.2	12.7	9.4	8.4	9.3	9.0
Total U.S.	158.7	178.5	103.3	52.6	66.1	46.6
1981-82						
East Coast	86.3	87.4	35.0	34.4	40.0	23.4
Midwest	54.1	50.0	30.8	8.1	8.3	6.2
Gulf	44.5	35.5	28.5	21.2	18.7	13.5
Rocky Mountains	3.8	3.9	3.1	0.6	0.7	0.5
West Coast	11.4	14.7	10.5	10.7	10.2	10.0
Total U.S.	200.1	191.5	107.9	75.0	78.0	53.6
1980-81						
East Coast	104.1	90.3	64.4	43.6	45.4	36.5
Midwest	62.4	58.5	52.4	9.3	9.1	7.2
Gulf	42.9	39.8	34.7	21.0	23.8	19.1
Rocky Mountains	3.9	3.4	2.9	0.9	0.8	0.5
West Coast	13.0	13.1	10.3	12.0	12.6	9.7
Total U.S.	226.3	205.1	164.7	86.8	91.7	73.0
1979-80						
East Coast	89.9	106.0	71.4	46.3	50.3	43.8
Midwest	55.3	66.9	55.7	9.7	12.4	10.7
Gulf	34.8	40.3	33.5	19.6	20.1	17.3
Rocky Mountains	3.4	3.4	3.9	0.7	1.0	0.9
West Coast	11.9	12.1	12.8	11.1	11.9	12.5
Total U.S.	195.3	228.7	177.3	87.4	95.7	85.2

fining capacity remains available, should additional runs be necessary. Crude oil stocks, while below last year's levels, continue to be high relative to refinery runs. In addition, the continuing glut of crude oil implies ready availability of spot market purchases of both crude and product, if necessary."

The refiners did have their summer work cut out for them, however. In the first week of May, distillate inventories were down to 102.8-million bbl., the lowest level in many years. Resid stocks also were down to 46.2-million bbl.—another low, low level. Not much was added to the inventories in May or June. But in July, the uphill battle began in earnest to reach projected levels of 177.7-million bbl. for distillate and 55.27-million bbl. for resid by the end of this month.

In mid-July, distillate inventories topped 122.8-million bbl., and resid, 48.5-million bbl. Refiners thus had to put aside another 55-million bbl. of distillate and 7-million bbl. of resid to meet the projected inventory bench marks. Refineries, which had been running at around 70% of capacity in May, were up four percentage points in July and near to the highest level of recent years.

Prices May Range Materially

It is in the area of prices that the government experts hedge their projections.

They use three scenarios—low, high and base, with the latter being the average or so-called "realistic" forecast.

This is the way they see things for the third and fourth quarters of this year and the first and second quarters of 1984:

	1983		1984	
	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
No. 2 heating oil, wholesale				
(¢ per gal.)				
Low	77.8	74.6	75.3	75.5
Base	83.7	84.0	84.8	85.1
High	89.8	92.7	91.1	93.5
No. 2 heating oil, retail				
(¢ per gal.)				
Low	102.6	99.4	100.9	101.6
Base	108.4	109.2	111.3	112.1
High	110.6	113.5	117.8	120.9
No. 6, residual, (all sulfur average)				
($ per bbl.)				
Low	26.32	24.80	25.13	25.55
Base	28.40	28.04	25.40	28.82
High	29.20	29.51	30.60	31.74

The Energy Department seers stress that the price projections are based on a variety of factors. The base line, for example, assumes that the world and domestic price of crude oil will remain stable at its April 1983 level of $29.43 bbl. The low takes into consideration the possibility that international crude prices may decline to around $25 bbl., while the high anticipates that crude oil prices will increase at twice the rate of inflation in the U.S.

For those who play the futures markets, the base price line projections for No. 2 distillate, wholesale, were almost on the nose with the New York Mercantile Exchange's September bidding, but about 2.5¢ under the bidding for December deliveries. No projected prices were available from the exchange for the new year, either by month or quarter.

It should be noted too that weather conditions can play hob with both wholesale and retail prices for all fuels. The Energy Department forecast anticipates a normal winter will prevail from September through April. But each 10% increase or decrease in degree days can result in a plus or minus 150,000 b/d flow of product.

Cold weather always brings with it a firming of retail prices, then, a series of increases as transportation and delivery conditions become more difficult. And, rising demand simultaneously creates heavy pressure on available product inventories. Consumption rises with continued cold weather, forcing most marketers into 'round-the-clock deliveries of heating oils to residences, apartment complexes and commercial buildings.

Fatter margins go along with the higher prices.

Department of Energy studies and reports indicate that distillate margins have been rising steadily in recent years, but not increasing out of proportion to the retail price of the product itself. The studies show that the average distributor margin has been generally about 15% to 19% of the retail price. The average margin in 1982 was 20.2¢ gal., the government said. It suggested that the 1983 average will be 21.0¢.

No Letup in Competition

The fact that the gap between natural gas and No. 2 heating oil prices is closing significantly is not going to take the pressure off the necks of distillate jobbers and dealers.

"It just isn't in the cards," said one jobber representative.

"You can't explain away how the gas utilities have been taking our customers from us right through the years, and you can't explain away the fact that electric heat is still getting more than half of the new home market, despite its high cost and the repeated public protests about excessive bills in the winter."

A recent report from Gas Appliance

The New Home Market: Has Fuel Oil Rounded the Corner?

Fuel oil gained ground in the new home market in 1982 for the first time in years, according to the latest construction report from the Department of Commerce.

The increase wasn't much—only 1%. Nevertheless, it was the first time since 1976 that oil's percentage of the new home market hadn't slipped again.

Virtually all of the increase was scored in the Northeast, where New England Fuel Institute and the various state and local groups carry on a running battle with the gas and electric utilities for new homes.

	Total U.S. New Homes Completed (Add 000)	Gas		Electricity		Fuel Oil		Other	
		New Homes	% of Market	New Homes	% of Market	New Homes	% of Market	New Homes	% of Market
Nationally									
1982	632	252	40%	315	50%	17	3%	48	8%
1981	819	339	41	407	50	16	2	57	7
1980	957	394	41	482	50	29	3	52	5
1979	1,301	512	39	662	51	86	7	41	3
1978	1,368	511	37	710	52	109	8	40	3
Regionally									
1982									
Northeast	79	28	36%	27	34%	14	18%	10	12
North Central	92	53	57	24	26	3	3	13	14
South	340	112	33	214	63	(a)	(a)	13	4
West	121	59	49	50	41	(a)	(a)	12	10
1981									
Northeast	87	30	35%	34	39%	11	13%	12	14
North Central	140	87	62	37	26	(a)	(a)	13	10
South	408	120	31	262	64	(a)	(a)	16	4
West	183	94	51	74	41	(a)	(a)	15	8

(a) Sample sizes were either inadequate or insignificant.
Source: U.S. Department of Commerce, Construcilon Reports C25, July, 1983.

Manufacturers Assn. puts it all into perspective somewhat dramatically. During the first five months of this year, the report stated, manufacturers shipped more than 600,000 gas furnaces to consumers versus an almost pitiful 34,000 oil furnaces. The gas equipment manufacturers also shipped almost twice as many boilers as did the oil equipment manufacturers. Perhaps most telling of all, however, is the data on water heaters. Gas and electricity count their water heater shipments in the millions—more than 1.25-million by each in the first five months of 1983—while oil's total is in the thousands—roughly 15,000 during the same period. [See related story on page 71.]

There was a note of cheer for the fuel oil industry in a recent Department of Commerce report on new home construction, however, stating oil's share had gone up 1% in 1982—the first growth sign in six years. [See related story and chart on opposite page.] But the Commerce report still had its negative side. Fuel oil's share of the new home market on a national basis was only 3%, compared with electricity's 50% and natural gas' 40%. Coal, wood, kerosine and other fuels collectively made up the balance.

Not only does heating oil have to cope with gas and electricity, but it also is being challenged by alternative units and fuels, such as the heat pump, heavily ballyhooed by the utilities; by kerosine burners, wood furnaces and fireplaces, and coal. Consumers enthusiastically turned their attention to the alternatives in 1981 when the retail price of fuel oil broke the $1 gal. mark and headed on upward to the $1.30 to $1.35 range in some sections of the country. New Englanders particularly set records in the amount of wood they burned as supplemental heat to cut down their use of fuel oil.

Kerosine burner sales took off like a skyrocket, but ran into safety questions and controversy last year which dampened public appreciation of them. Millions of units were sold, however, and many oil companies now are marketing the special type of kerosine that is needed to insure safe burning.

In mid-summer, two reports gave the kerosine burners a blessing which should help their sales appeal this winter. Both the Consumer Product Safety Commission and the National Kerosine Heater Assn. said extensive studies had proved that the burners are safe. [See page 71.] The Consumer Product Safety Commission undertook its six-month, $1-million study after *Consumer Reports* had condemned the burners as unsafe.

The Commission report said the number of fires and deaths attributed to kerosine burners was no worse than that attributed to electric and gas heater fires, and much lower than that blamed on wood stove fires.

All of which means that kerosine is going to continue to cut into the volume of No. 2 that's used for space heating.

This encroachment could be significant. One industry executive mentioned some time ago that one gallon of kerosine could displace as much as three gallons of fuel oil in the home heating market. His was an idle comment, however, so it is not known how reliable is the ratio.

Optimistic Outlook

Mark Decker, a policy vice president of National Oil Jobbers Council who has been staff coordinator and resident fuel oil expert, is basically optimistic about the industry and its future.

"It all looks very promising for heating oil dealers," he says.

"The marketers who have survived the shake-out period following crude oil decontrol in 1981 are most likely to be around for a long time to come. The survivors are in a stronger position today than they have been in years."

As for the months ahead, he says NOJC does not anticipate any fuel oil supply problems this winter.

"Supplies are stable," says Decker, "and our decreased imports and increased utilization of products from friendly sources, such as Mexico and Great Britain, have significantly lessened both the threat and the potential impact of a supply disruption from the Middle East."

The challenge that's ahead?

"Clearly, the long-term health of the heating oil industry depends not only on maintaining its present customer base but in growth and expansion," he says. "Over the past decade, marketers have been forced into a defensive posture and have fought vigorously to retain customers in a shrinking fuel oil market. The time is here for marketers to take the offensive, seeking new markets for fuel oil, particularly the new home market.

"The general public, and especially the building and real estate professions, urgently need a thorough education on the value of heating oil systems for homes and fuel oil as a heating source. Our job is to help create that market, and I anticipate the fuel oil industry will take a much more aggressive role in the months ahead.

"The decade of the 1980s will provide a unique opportunity for fuel oil to regain some of its lost market and advance into new markets. I do not see a better time, through the year 2000, than the next 10 years for marketers to make these advancements." NEW

The Latest Profile: How Fuel Oils Were Used in '82

Distillate	(Thousands of bbl.) 1982	1981	% Change	% of 1982	Total Sales 1981
Residential	180,760	197,400	−8.4%	18.5%	19.1%
Commercial	75,699	78,663	−3.8	7.8	7.6
Industrial	71,340	80,216	−11.1	7.3	7.8
Farm	68,453	69,665	−1.7	7.0	6.7
Subtotal	**396,252**	**425,944**	**−7.0**	**40.6**	**41.3**
Oil Company	29,482	29,185	+1.0	3.0	2.8
Electric Utility	12,134	18,192	−33.3	1.2	1.8
Railroad	93,150	100,482	−7.3	10.0	9.7
Vessel Bunkering	33,885	41,025	−17.4	3.5	4.0
On-Highway Diesel	338,006	340,002	−0.6	34.3	32.9
Military	15,201	17,763	−14.4	1.2	1.7
Off-Highway Diesel	37,118	38,851	−4.5	3.8	3.8
All Other	19,639	21,032	−6.6	2.0	2.0
Total U.S.	**974,864**	**1,032,476**	**−5.6%**		
Residual					
Commercial	65,781	67,035	−1.9%	10.5%	8.8%
Industrial	122,619	117,024	+4.8	19.6	15.4
Subtotal	**188,400**	**184,059**	**−2.4**	**30.1**	**24.2**
Oil Company	45,319	51,870	−12.6	7.2	6.8
Electric Utility	227,419	325,486	−30.1	36.3	42.7
Railroad	170	178	−4.5	—	—
Vessel Bunkering	152,586	188,632	−19.1	24.4	24.8
Military	7,829	7,008	+11.7	1.2	0.9
All Other	4,784	4,795	−0.2	0.8	0.6
Total U.S.	**626,510**	**762,030**	**−17.8%**		

Special Note: There is no heating category available anymore. However, DOE says in the case of distillates, the sum of the residential, commercial and farm categories roughly approximate the heating category of the past. In the case of residual, the sum of the commercial and industrial categories also are roughly equivalent to heating.
Source: Petroleum Supply Annual, Department of Energy, July, 1983.

conversions from natural gas back to oil.

Indeed, the American Gas Assn. estimates that gas utilities across the country have lost roughly 5% of industrial and other large accounts to fuel oil since 1982.

Such reports, along with inquiries Clauss has received concerning reconversion, have made him optimistic he soon may increase his yearly fuel oil gallonage and his 950 (mostly residential) accounts.

"We've already been contacted in the last three months by a local college, a hospital and two industrial plants," he says. "They're asking us whether we'd be in a position to supply them, should the price of natural gas go out of sight."

Setting an Example

Clauss also is a strong believer in energy efficiency and conservation. For example, in his garage he installed a low temperature thermostat on a "night setback" basis. He maintains night temperatures of 40 degrees—warm enough to allow for easy truck start-up, but cool enough to realize significant savings. He estimates that the $18 thermostat saved him about $500 in fuel costs over the past year.

Clauss tells his customers about similar saving methods to enhance the attractiveness of oil heat. In pointing to the "inevitability" of higher natural gas prices, he shows customers how fuel oil can become less expensive to use in the meantime. The importance of insulation is his main point.

"We've got customers that use 1,800 gal. a year on a two-flat, and they don't have insulation in the attic. They'll get a new car every four or five years, but won't *spend* the money to *save* money," says Clauss. "That's being grossly inefficient."

Deregulation and insulation aside, natural gas will always enjoy certain advantages over fuel oil, according to a long time industry observer.

"Fuel oil will always remain a dirty, smelly fuel," says this source. "Natural gas is clean, and of course, there is a disadvantage with fuel oil in that the consumer has to pay in advance," he says.

Although Clauss is aware of heating oil's image problem, he believes that with new equipment, obstacles at least can be partially overcome. For instance, Clauss recently had three of his four trucks repainted.

The implementation of new, dual-fuel furnaces (which convert back and forth between natural gas and fuel oil) could help make up for fuel oil's disadvantages. Clauss says that such equipment may signal an end to a 10-year Chicago tradition of oil burners not being installed in most new homes. It also may attract younger homeowners.

At present, the majority of Clauss' customers are senior citizens. Oftentimes they don't wish to convert to natural gas and are satisfied with oil's hotter flame which allows for residual heat to keep a home warm once the furnace shuts off.

Watches Costs and Credit

Clauss is confident of survival, despite the fact that heating oil sales are down $230,000 from last year and gallonage has decreased by 10%. The company is tightening up on credit to its customers appreciably. Overhead has been cut significantly, and Clauss says the company's profit picture looks better than last year.

Clauss is more concerned with the supply outlook for the coming winter. "We hear that industrial output was 75% of capacity in June," he says. "But so many refineries have been mothballed. That's alright in a recessionary period, but when the economy is coming back to life, there could be a shortage," says Clauss.

"I had occasion to hear John Swearingen (outgoing Standard of Indiana chairman) speak at a retirement luncheon in mid-July," he says. And, one of his offhand comments was that he saw a "definite resurgence in the fuel oil business because gas will continue to rise," says Clauss. "And God only knows, he should be in a position to see it." NPN

The company has cut its fleet from seven to four and enters this season with lower stocks.

Fuel Oil Briefs

Fuel Oil Equipment Has Made Progress, But Totals Are Low

Shipments of oil furnaces, water heaters and boilers all showed plus signs in the first half of 1983. But compared with gas and electricity, they were almost minuscule in their totals.

Here's a bird's eye view, as provided by Gas Appliance Manufacturers Assn. and industry sources:

	5 mos. '83	5 mos. '82	% Change
Water Heaters			
Gas	1,378,848	1,352,844	+ 1.9%
Electricity	1,272,021	1,130,239	+12.5
Oil	14,800*	14,470	+ 2.3
*Estimated			
Central Heating			
Gas Furnaces	608,100	564,300	+ 7.8
Oil Furnaces	33,900	28,700	+18.1
Gas Boilers	42,100	39,900	+ 5.5
Oil Boilers	23,972	19,444	+23.3

Safety Commission Says Kero Heaters 'Almost' Safe Enough

The long-awaited, $1-million report by the Consumer Product Safety Commission on kerosine heaters comes close to the same conclusions reached by an association of the manufacturers themselves. That is: the devices are fairly safe, but more ought to be done to make them safer.

The CSPC staff report—which awaited a vote of formal approval by the commission in early August—called for voluntary standards concerning fire and emissions hazards. The study came in the wake of a critical appraisal of kerosine heaters which appeared last fall in *Consumer Reports*—which moved Kero-Sun, Inc. to file (and subsequently drop) a multimillion-dollar lawsuit against the magazine [NPN—Jan. '83, p41].

The CPSC report specifically recommended: installation of emergency shutoff devices (which several heater makers already spec), addition of grills to prevent contact burns, adoption of testing methods to limit nitrogen dioxide emissions, and stricter standards for tip-overs. The study also recommends that commissioners promote standardized containers for 1-K grade kero and step up studies on sulfur content and storage tank integrity.

A report last February by the National Kerosene Heater Assn. had more or less proclaimed the heaters as safe. NPN

Fuel Oil Briefs

Oil Equipment Market Could Stand More R&D

A detailed study by Frost & Sullivan, an international business researcher, suggests that fuel oil may be its own worst enemy during the next two decades in the fight for space-heating markets.

The study says that a downward sales spiral for residential oil-fired equipment lies ahead, "as a weak market fails to support research to make oil equipment more efficient." This, the findings state, widens the competitive disadvantage with natural gas and electricity and causes further sales declines.

The study states heat pumps will come on strong in the years ahead, with nearly 1.3 million units being purchased as central home heating units in the year 2000—almost one-half of the total residential market of 3.2-million retrofit and new units expected to be sold at that time.

It also states that at least two out of the 10 heat pumps will be gas-fired—"a piece of equipment that will appear in quantity before this decade ends."

The 1.3-million heat pumps may seem menacing to the fuel oil industry which is becoming more concerned with them almost hourly. But during an informal discussion, the author of the study said the heat pumps will be placed primarily in new construction in traditional markets—that is, the South and Midlands—rather than the so-called "winter heat" country to the north.

He said he does not see the heat pumps as replacements for conventional oil and gas furnaces or burners.

In looking down the road, however, the New York-based research firm was almost bleak in its forecast for the heating oil industry over the next 15 years or so.

It projected a market of 219,000 oil fired units in the year 2000, compared with 1,764,000 for gas and 1,117,000 for electricity.

Here's the fore-and-aft look that Frost & Sullivan compiled in its recent study, copies of which are available $1,150 each.

Market Forecast: Residential Central Heating Equipment

(000 units)

	1978	1980	1982	1985	1990	1995	2000
Natural gas	1,762	1,739	1,130	1,634	1,688	1,730	1,764
Fuel Oil	371	116	171	247	244	234	219
Central electric	978	767	619	979	1,094	1,141	1,117
Other Systems	8	12	10	20	30	40	53
Total:	3,119	2,634	1,930	2,880	3,056	3,145	3,153

O&E Briefs

Trading Network Hailed As Time, Cost Saver; System to Go National

For many of the more than 100 jobbers using it, a St. Paul, Minn.-based computer pricing service and trading network has been the best innovation since the telephone—a response the company hopes will soon propel its scope to nationwide coverage.

In fact, some jobbers say Computer Petroleum Company's four-year-old system has replaced the time-consuming phone calls they once needed to make to source competitively priced product.

CPC offers its 200 subscribers daily pricing surveys for 100 markets in 25 states. About 70% of these subscribers are jobbers, the remainder are majors and large independent refiners. Three trade analysts help negotiate transactions.

"It's like having 15 phones sticking in your ear at the same time," says Jerry Shepard of C.S.C. Oil Corp. in Louisville, Ky. Since using the trading network, C.S.C.'s wholesale business has increased by 30% to 40%. Shepard says he has been able to save up to 1½¢ gal. by using the system and that he recouped the $350/month service fee within a week after installation.

"It keeps you apprised of the market on a daily basis," says Jim Haslam II, of Pilot Oil Corp. in Knoxville, Tenn. "We pull from 16 different terminals in eight different states, and the system keeps us up to date with exact prices at those terminals every day and helps us keep up with what the Gulf Coast is doing."

For the monthly fee of about $350 and a one-time installment charge of about $120, subscribers obtain a terminal, a printer and a modum (device which connects a telephone to the system). Through this system, jobbers can:

—Review, buy, sell and exchange orders instantly. A trading screen shows buying and selling options of the network's subscribers.

—Scan spot market prices. CPC uses trading figures to update spot market prices in key trading areas.

—Trade confidentially. Only after a buyer and seller match bids on the trading screen are they introduced to one another in order to negotiate credit terms.

—Draw advice from trade analysts.

Subscribers also can call up rack prices for some 25 suppliers per market, check American Petroleum Institute weekly statistics and examine petroleum futures as well as other financial information.

The system's scope, however, is somewhat limited by the number of subscribers. A CPC spokesman says the company plans to expand nationwide within the next six months. The network currently covers PADs 1, 2 and 3.

But not all of its customers are completely satisfied. One jobber says he disagrees with the company's selection of a few of the suppliers that comprise some of the firm's daily price reports. He also says jobbers may be reluctant to give CPC actual contract prices, which may distort spot market statistics.

The jobber says, however, that he believes the network has the potential to become a valuable tool once the "bugs" are worked out.

CPC was started by a computer specialist and a Minnesota jobber in 1979 to address product shortages. In a supply glut, company officials say the service is aimed at allowing subscribers to stay on top of the market. NPN

Kero-Sun Files Suit Against Heater Maker

Kero-Sun, Inc., which earlier dropped a multi-million dollar "efficiency" suit against *Consumer Reports*, is involved in a legal battle with its former Japanese burner supplier.

Kero-Sun, of Kent, Conn., is asking for $100-million from Toyotomi Kogyo Co. in an anti-trust suit that could see damages trebled to $300-million, if it wins.

The suit alleges that "Toyotomi conspired with former Kero-Sun employees to acquire marketing and trade secrets, that Toyotomi attempted to disrupt business relations with Kero-Sun distributors, and that Toyotomi attempted to circumvent its exclusive agreement to sell heaters in the U.S. only through Kero-Sun."

Kero-Sun said that it was advised in April that Toyotomi no longer would provide product and that the Japanese firm would soon be opening its own marketing affiliate in the U.S.

The Connecticut firm, whose pioneering sales spawned the new kerosine space heater market, however, said it had sufficient inventories on hand to take care of the 1983-84 season.

C4680-1 10/10/83

October 1983 $4.00

Oil Heat Rally Sets Agenda for Success
Marketers Reeling as Tough Summer Ends
How Jax Kar Wash Cleans Up in Detroit

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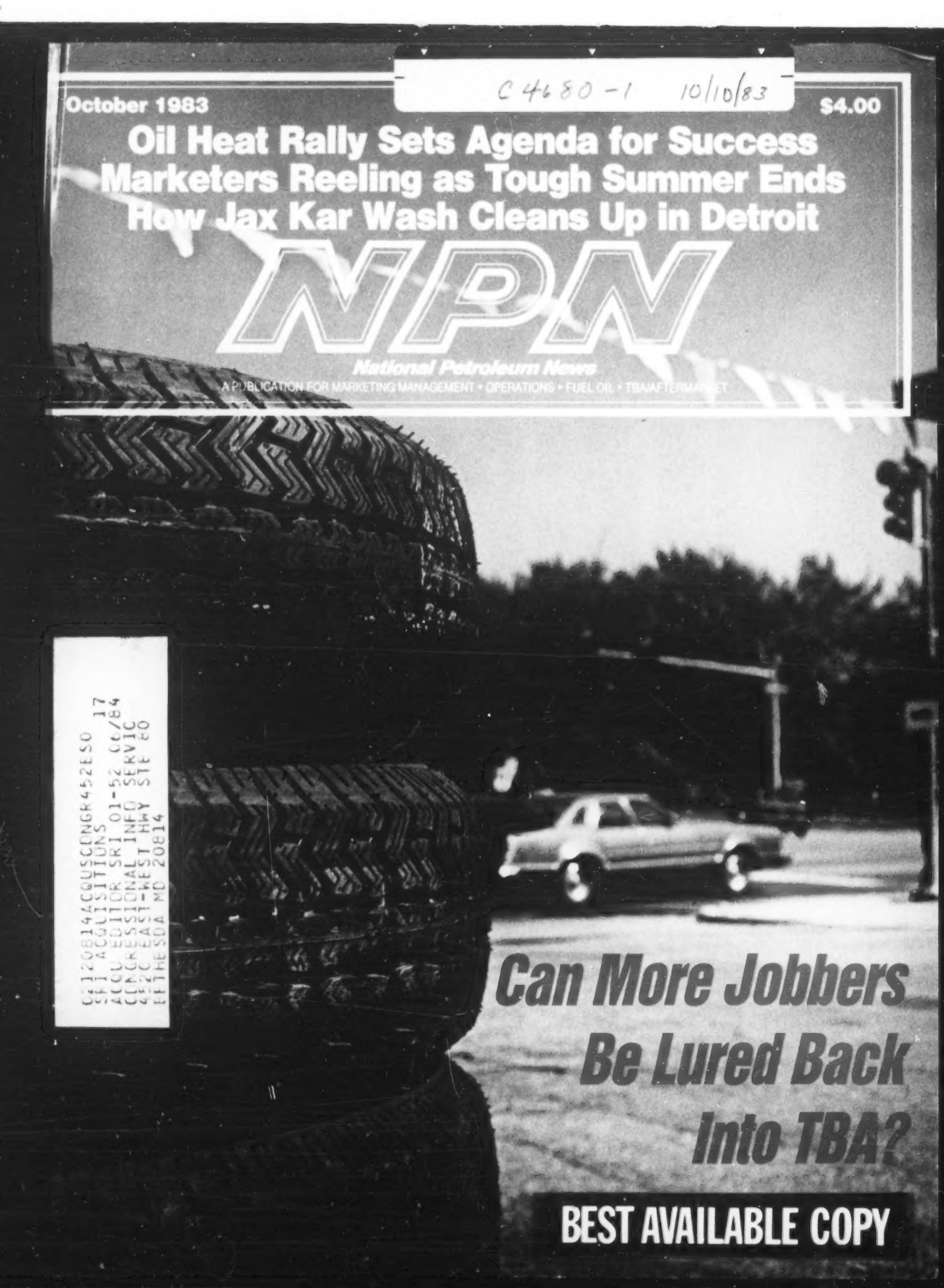

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Can More Jobbers Be Lured Back Into TBA?

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NATIONAL PETROLEUM NEWS

OCTOBER 1983 VOL. 75, NO. 10

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What many gasoline marketers are losing out on the pump islands could be made up in tires, batteries and accessories in the back room, some say. But first they need a niche, a program and the commitment. **Page 36**

Cover photography by Thomas Olson

Can a $1-million carwash employing 25 people really turn a profit? It can when you put on the Ritz the way Detroit-area jobber Bruce Milen does. **Page 41**

Stifling street competition throughout the driving season curtailed what volume or margin gains many fledgling jobberships had been counting on. **Page 27**

• TRENDS

Georgia Gasoline Ruling Could Cause Big Ripples

Sometime this winter—perhaps not too long after the first of the year—Georgia's State Supreme Court can be expected to decide a tinderbox gasoline-marketing dispute that could have industrywide repercussions.

The issue is relatively clear cut: Can jobbers who own or operate retail stations take advantage of their lower wholesale costs to reduce their pump prices in competitive marketplaces? A Georgia law seems to say *no*.

Georgia retailers contend that the lower cost gives jobbers an unfair advantage, and they want it stopped.

In June, the retailers won an injunction against the jobbers in a test case that also involved Texaco as the prime supplier. The retailers had earlier successfully defended the law in a federal court case challenging its constitutionality [NPN—July '83, p22]. The case now in the hands of the State Supreme Court stems from an amendment to that law.

If the retailers win the latest go-around, it will be a landmark affair that will incite other states to seek similar legislation. Many are deeply interested in the Georgia fight and are only awaiting the outcome to proceed on their own.

Theoretically, this is only a three-way battle between Kenneth Reeves, a rural Texaco retailer; Batton-Jackson Oil Co., of Griffin, Ga., a Texaco jobbership that supplies Reeves and holds the lease on the station property; and Texaco itself.

The Georgia Assn. of Petroleum Retailers is supporting Reeves 100%. The state jobber group, Georgia Oilmen's Assn., is supporting Batton-Jackson. In the background —interested, but not a participant—is the National Oil Jobbers Council, which has been functioning as an information clearinghouse for its Georgia affiliate. Although no one will say so out loud, it can be assumed that all of the majors are keeping sharp eyes on developments, because the stakes are high and the implications are enormous.

The Georgia retailers are already looking ahead to 1984. They feel that if they can contain jobber competition via the current court case, then they can seek and probably get another amendment to the law next year that will ban all supplier-operated service stations in the state. They have yet another ace up their sleeve. Under the language of the law now being contested, any supplier that exchanges or buys product from another supplier will be classified as a distributor somewhat akin to a jobber/wholesaler. He'd be in the same soup, then, as a jobber/retailer.

Jack Houston, the retailers' executive director, insists that the association's goal is not to drive the jobbers out of retailing. "What we want," he says, "and what the law provides for are two price levels: one for jobber gasoline that is wholesaled to others, and one for the jobber gasoline that is sold at retail. This then makes him pay the same laid-in price that any other retailer would have to pay."

The law makes the supplier a part of the package.

The June injunction, in fact, seemed to be aimed more specifically at telling Texaco that it could not supply Batton-Jackson with any more gasoline until it is advised how much would be moved at wholesale and how much at retail, and that different base prices must be charged for each.

If the law is upheld, it eventually will make gasoline cops out of all of the suppliers. The law assigns to them equal vulnerability, so they will have to know, in sending gasoline to a jobber, what his end-use plans for it are. This will be true for all Georgia suppliers, including Amoco, Chevron, Citgo, Exxon, Phillips, Shell and Union.

The retailers know that they are going to have to be cops too. In fact, association president Charles Allen, a Gulf dealer in Atlanta, has asked his membership to advise the association office in confidence which jobbers are retailing as well as wholesaling. He said that each supplier will be put on record, and if street prices warrant investigation, complaints will be filed and both sides—jobber and supplier—will be subpoenaed for their records.

A retailer victory could have a traumatic effect in Georgia. During last summer's hearing, an industry spokesman conceded that about 75% of the state's 300 jobbers were "probably in violation of the law as it now stands."

The State Supreme Court decision might not be the final shot, however. Another appeal to the U.S. Supreme Court is a possibility for both sides. But the issues would necessarily have to be very limited because the constitutionality decision has already been rendered.

The Georgia court should be getting the case any day now. Oral arguments are permissible but are generally limited to about 15 minutes for each side. The heavy work is done in the briefs. Court experts assume that if the case is in the tribunal's hands by early October, a decision could come before or immediately after the holiday season.

—J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

JULY	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.272	$1.207	$1.288	$1.446
Regions:				
Northeast	1.269	1.203	1.272	NA
North Central	1.276	1.227	1.299	NA
South	1.236	1.168	1.252	NA
West	1.310	1.230	1.334	1.451

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	8/26/83	8/27/82
Gasoline (total)	225,612	225,097
Gasoline (unleaded*)	88,040	91,933
Kerosine **	31,637	33,968
Distillates	139,186	158,428
Residual	45,560	50,689

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

Fuel Oil Drops Last Year Hit 10-Year Low

Deliveries of distillate fuel oil dropped below the billion-bbl. mark in 1982 for the first time in more than a decade, an Energy Department report states.

Last year, total deliveries were 975-million bbl., down 5.6% from the preceding year's total of 1.0-billion bbl., according to DOE's annual report, "Deliveries of Fuel Oil and Kerosine." [See table for breakdown by category and by state.]

Deliveries for residential, commercial, industrial and transportation uses accounted for 81.3% of the distillate deliveries in 1982, compared with 81.1% in 1981. On-highway diesel fuel consumption declined by less than 1% in 1982.

Residential deliveries of distillates in 1982 slumped from 197-million bbl. to 181-million bbl., an erosion of 8%. The government no longer maintains a special category of heating oil deliveries, having changed its data collection format several years ago. However, an aggregate of the residential, commercial and farm deliveries in 1982 roughly approximates the heating oil category of the past.

On this basis, heating oil deliveries amounted to 325-million bbl. in 1982 versus 346-million bbl. in 1981, a reduction of 6%. One can assume that last winter's warmer weather had much to do with the 1982 decrease in consumption. **NPN**

	Residential		Commercial		Industrial		Diesel On-Highway		All Uses Total (a)	
(Add 000 bbl.)	**1982**	**1981**	**1982**	**1981**	**1982**	**1981**	**1982**	**1981**	**1982**	**1981**
PAD District I										
New England States										
Connecticut	12,277	12,979	2,983	2,940	1,092	958	2,698	2,262	20,509	19,745
Maine	4,956	5,234	1,421	1,745	444	326	1,564	1,248	9,189	9,266
Massachusetts	18,139	18,747	5,525	5,773	1,569	1,526	4,745	4,419	32,263	32,155
New Hampshire	3,232	3,485	593	534	260	379	744	692	5,084	5,313
Rhode Island	2,473	2,573	434	382	194	208	679	590	3,984	3,993
Vermont	1,399	2,013	508	555	134	131	352	753	2,707	3,828
Central Atlantic States										
Delaware	897	1,031	415	634	96	161	921	862	2,753	3,133
District of Columbia	510	282	451	281	5	78	436	376	2,215	2,125
Maryland	6,184	6,805	1,775	1,572	1,206	1,486	4,023	4,730	16,198	18,365
New Jersey	19,349	23,217	7,051	7,680	6,387	7,635	8,093	7,460	45,546	50,973
New York	31,753	35,129	13,638	12,628	3,816	3,629	8,353	7,227	62,608	64,263
Pennsylvania	20,763	24,260	4,735	5,172	5,030	5,466	15,296	15,311	53,065	59,977
Lower Atlantic States										
Florida	726	985	652	2,578	1,341	1,937	13,098	12,968	22,503	29,816
Georgia	163	184	1,044	1,230	908	1,158	11,801	12,067	18,387	19,388
North Carolina	4,924	5,529	888	1,346	1,145	1,611	9,789	9,526	20,184	21,228
South Carolina	1,136	1,432	405	434	486	583	5,682	4,968	9,462	9,841
Virginia	5,050	5,585	1,487	1,399	1,228	1,570	8,286	9,038	21,943	23,638
West Virginia	866	894	303	712	1,567	1,734	2,381	2,833	7,659	9,450
Total	**134,797**	**150,364**	**44,308**	**47,595**	**26,908**	**30,578**	**98,941**	**97,330**	**356,254**	**386,497**
PAD District 2										
Illinois	2,675	2,624	3,139	4,070	2,854	2,186	13,744	15,037	32,521	34,427
Indiana	4,234	4,110	1,445	1,142	2,343	2,447	13,821	13,593	28,913	28,961
Iowa	2,116	2,016	649	624	603	613	6,525	6,334	16,212	14,374
Kansas	174	19	146	297	895	354	5,100	5,468	13,817	13,239
Kentucky	649	573	492	603	2,926	3,346	5,747	5,911	17,507	18,217
Michigan	6,331	7,913	2,137	2,373	1,456	1,564	8,181	8,230	22,819	26,657
Minnesota	6,224	4,829	991	837	819	1,086	6,341	5,957	20,880	18,714
Missouri	1,128	1,410	1,051	775	833	1,249	9,004	8,460	20,738	18,003
Nebraska	367	386	299	340	213	183	4,086	3,438	9,176	8,233
North Dakota	915	1,068	211	393	288	450	2,084	2,035	7,209	7,708
Ohio	4,501	5,710	2,110	2,603	3,561	5,221	17,092	16,663	40,250	44,959
Oklahoma	1	96	157	525	1,125	926	8,251	8,143	14,557	15,519
South Dakota	876	702	285	251	107	94	1,900	1,714	5,131	4,406
Tennessee	404	472	1,118	1,121	1,329	1,399	9,505	9,112	18,764	19,512
Wisconsin	7,587	7,508	1,282	1,155	656	916	7,072	7,230	20,537	20,726
Total	**38,182**	**39,436**	**15,512**	**17,109**	**20,008**	**22,034**	**118,453**	**117,331**	**289,033**	**293,655**
PAD District 3										
Alabama	55	17	238	998	1,686	1,746	6,758	6,782	15,436	17,939
Arkansas	14	20	139	176	488	628	5,512	5,458	13,336	13,116
Louisiana	84	0	348	518	3,512	3,595	7,510	10,031	30,858	37,964
Mississippi	0	2	114	138	663	1,964	5,257	5,298	11,849	13,487
New Mexico	24	18	560	683	617	886	3,512	5,848	7,954	12,526
Texas	29	7	4,894	3,749	4,128	4,841	32,692	31,564	90,180	90,359
Total	**206**	**64**	**6,293**	**6,262**	**11,094**	**13,660**	**61,241**	**64,981**	**169,613**	**185,391**
PAD District 4										
Total	**843**	**851**	**1,540**	**1,146**	**3,692**	**4,706**	**13,205**	**12,204**	**36,884**	**39,462**
PAD District 5										
Alaska	1,128	912	482	533	726	722	596	1,067	6,335	6,548
Arizona	0	1	23	60	1,050	1,679	4,581	5,323	8,102	9,741
California	72	72	4,410	3,742	4,794	3,898	27,679	28,423	67,337	67,494
Hawaii	0	1	55	178	83	107	415	423	4,570	6,043
Nevada	158	151	77	333	234	283	1,977	1,813	3,518	3,488
Oregon	2,117	2,041	1,003	959	1,399	1,466	5,339	5,651	15,020	16,462
Washington	3,257	3,007	1,996	746	1,352	1,085	5,579	5,456	18,200	17,695
Total	**6,732**	**6,685**	**8,046**	**6,551**	**9,638**	**9,240**	**46,166**	**48,156**	**123,081**	**127,470**
U.S. Total	**180,760**	**197,400**	**75,699**	**78,663**	**71,340**	**80,215**	**338,006**	**340,002**	**974,864**	**1,032,476**

(a) All uses also include deliveries to oil companies, electric utilities, farms, military, railroads, vessel bunkering, off-highway diesel, and miscellaneous.
Source: Deliveries of Fuel Oil and Kerosine in 1982, Petroleum Supply Annual, Department of Energy, June, 1983.